

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15 (d) of the
Securities Exchange Act of 1934

For the quarterly period ended June 28, 2002

Commission File Number: 001-9249

GRACO INC.

(Exact name of Registrant as specified in its charter)

Minnesota

41-0285640

(State of incorporation)

(I.R.S. Employer Identification Number)

88 - 11th Avenue N.E.
Minneapolis, Minnesota

55413

(Address of principal executive offices)

(Zip Code)

(612) 623-6000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

47,583,000 common shares were outstanding as of July 26, 2002.

GRACO INC. AND SUBSIDIARIES

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PART I

Item I. GRACO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(In thousands except per share amounts)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 28, 2002	June 29, 2001	June 28, 2002	June 29, 2001
Net Sales	\$132,796	\$130,873	\$240,653	\$240,687
Cost of products sold	65,655	66,620	118,349	121,296
Gross Profit	67,141	64,253	122,304	119,391
Product development	4,527	5,711	8,688	11,998
Selling, marketing and distribution	22,096	20,441	41,888	41,113
General and administrative	8,785	9,597	16,502	17,293
Operating Earnings	31,733	28,504	55,226	48,987
Interest expense	110	355	260	805
Other expense	207	601	204	814
Earnings Before Income Taxes	31,416	27,548	54,762	47,368
Income taxes	9,900	9,300	17,700	16,000
Net Earnings	\$ 21,516	\$ 18,248	\$ 37,062	\$ 31,368
Basic Net Earnings Per Common Share	\$.45	\$.39	\$.78	\$.68
Diluted Net Earnings Per Common Share	\$.44	\$.39	\$.77	\$.67

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands)

	June 28, 2002	Dec. 28, 2001
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 63,866	\$ 26,531
Accounts receivable, less allowances of \$5,700 and \$4,500	97,197	85,440
Inventories	28,657	30,333
Deferred income taxes	12,349	11,710
Prepaid expenses	1,833	1,483
Total current assets	203,902	155,497
Property, Plant and Equipment:		
Cost	213,744	211,523
Accumulated depreciation	(119,356)	(112,579)
	94,388	98,944

Intangible Assets, net	13,009	14,274
Other Assets	8,159	7,398
	-----	-----
	\$ 319,458	\$ 276,113
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities

Notes payable to banks	\$ 9,649	\$ 9,512
Current portion of long-term debt	500	550
Trade accounts payable	12,284	10,676
Salaries, wages and commissions	9,857	10,620
Accrued insurance liabilities	10,467	10,380
Accrued warranty and service liabilities	6,234	6,091
Income taxes payable	4,894	6,014
Other current liabilities	17,752	19,410
	-----	-----

Total current liabilities	71,637	73,253
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Retirement Benefits and Deferred Compensation	28,297	27,359
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Deferred Income Taxes	1,765	1,761
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Shareholders' Equity

Common stock	47,643	31,113
Additional paid-in capital	69,485	54,269
Retained earnings	102,405	89,155
Other, net	(1,774)	(797)
	-----	-----

Total shareholders' equity	217,759	173,740
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	\$ 319,458	\$ 276,113
	=====	=====

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (In thousands)

Twenty-six Weeks

June 28, 2002	June 29, 2001
-----	-----

Cash Flows from Operating Activities

Net Earnings	\$37,062	\$31,368
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	9,416	8,946
Deferred income taxes	(719)	123
Tax benefit related to stock options exercised	3,300	-
Change in:		
Accounts receivable	(9,197)	(2,520)
Inventories	1,677	(2,013)
Trade accounts payable	1,551	732
Salaries, wages and commissions	(970)	(5,716)
Retirement benefits and deferred compensation	(189)	(1,040)
Other accrued liabilities	(2,886)	2,421
Other	(275)	(916)
	-----	-----
	38,770	31,385
	-----	-----

Cash Flows from Investing Activities

Property, plant and equipment additions	(3,926)	(12,084)
Proceeds from sale of property, plant and equipment	271	105
Acquisition of business, net of cash acquired	-	(15,949)
	-----	-----
	(3,655)	(27,928)
	-----	-----

Cash Flows from Financing Activities		
Borrowings on notes payable and lines of credit	11,736	106,130
Payments on notes payable and lines of credit	(12,329)	(109,598)
Borrowings on long-term debt	-	21,000
Payments on long-term debt	(50)	(27,810)
Common stock issued	11,567	10,951
Common stock retired	(1,028)	(2,025)
Cash dividends paid	(6,905)	(6,123)
	-----	-----
	2,991	(7,475)
	-----	-----
Effect of exchange rate changes on cash	(771)	162
	-----	-----
Net increase (decrease) in cash and cash equivalents	37,335	(3,856)
Cash and cash equivalents		
Beginning of year	26,531	11,071
	-----	-----
End of period	\$ 63,866	\$ 7,215
	=====	=====

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

- The consolidated balance sheet of Graco Inc. and Subsidiaries (the Company) as of June 28, 2002, and the related statements of earnings for the thirteen and twenty-six weeks ended June 28, 2002 and June 29, 2001, and cash flows for the twenty-six weeks ended June 28, 2002 and June 29, 2001 have been prepared by the Company without being audited.

In the opinion of management, these consolidated statements reflect all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of Graco Inc. and Subsidiaries as of June 28, 2002, and the results of operations and cash flows for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Therefore, these statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2001 Form 10-K.

The results of operations for interim periods are not necessarily indicative of results that will be realized for the full fiscal year.

- Major components of inventories were as follows (in thousands):

	June 28, 2002	Dec. 28, 2001
	-----	-----
Finished products and components	\$26,351	\$23,863
Products and components in various stages of completion	16,506	18,827
Raw materials and purchased components	16,833	18,899
	-----	-----
	59,690	61,589
Reduction to LIFO cost	(31,033)	(31,256)
	-----	-----
	\$28,657	\$30,333
	=====	=====

- The Company has three reportable segments; Industrial/Automotive, Contractor and Lubrication. The Company does not identify assets by segment. Sales and operating earnings by segment for the thirteen and twenty-six weeks ended June 28, 2002 and June 29, 2001 were as follows (in thousands):

Thirteen Weeks Ended

Twenty-six Weeks Ended

	June 28, 2002	June 29, 2001	June 28, 2002	June 29, 2001
	-----	-----	-----	-----
Net Sales				
Industrial/Automotive	\$ 50,759	\$ 51,449	\$ 96,862	\$ 99,098
Contractor	68,593	66,776	119,728	116,677
Lubrication	13,444	12,648	24,063	24,912
	-----	-----	-----	-----
Consolidated	\$132,796	\$130,873	\$240,653	\$240,687
	=====	=====	=====	=====
Operating Earnings				
Industrial/Automotive	\$ 13,223	\$ 12,114	\$ 24,960	\$ 21,507
Contractor	17,243	15,537	28,108	24,157
Lubrication	3,129	3,072	5,521	6,028
Unallocated Corporate expenses	(1,862)	(2,219)	(3,363)	(2,705)
	-----	-----	-----	-----
Consolidated Operating Earnings	\$ 31,733	\$ 28,504	\$ 55,226	\$ 48,987
	=====	=====	=====	=====

4. Total comprehensive income in 2002 was \$21.5 million in the second quarter and \$37.1 million year-to-date. In 2001, comprehensive income was \$17.6 million for the second quarter and \$30.0 million for the six-month period. There have been no significant changes to the components of comprehensive income from those noted on the 2001 Form 10-K except as described in note 6 below, with respect to translation gains and losses.

5. Effective at the beginning of fiscal year 2002, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets." Upon adoption of SFAS No. 142, amortization of goodwill ceased, and results of initial goodwill impairment testing indicated no impairment. Had SFAS No. 142 been effective at the beginning of 2001, the non-amortization provisions would have increased net earnings for the second quarter and six months ended June 29, 2001 by \$140,000.

GRACO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Components of intangible assets were (in thousands):

	June 28, 2002	Dec. 28, 2001
	-----	-----
Goodwill	\$ 7,939	\$ 7,939
Other identifiable intangibles, net of accumulated amortization of \$7,700 and \$6,400	5,070	6,335
	-----	-----
	\$13,009	\$14,274
	=====	=====

Amortization of intangibles was \$624,000 in the second quarter of 2002 and \$1,266,000 year-to-date. Estimated annual amortization is as follows: \$2,400,000 in 2002, \$1,600,000 in 2003, \$800,000 in 2004, \$400,000 in 2005 and \$300,000 in 2006.

6. During the third quarter of 2001, the Company announced plans to relocate the operations of its German subsidiary, Graco Verfahrenstechnik (GV) to other Company facilities in Belgium and the U.S. This included termination of approximately 50 employees, termination of leases and consolidation of product lines.

General and administrative expense in the third quarter of 2001 included a \$1.4 million charge to establish a restructuring accrual for incremental costs associated with relocating GV operations. Through the end of the second quarter of 2002, there were no significant payments charged against the accrual, but the Company expects that all amounts accrued will be paid by the end of 2002.

The economic facts and circumstances considered in determining the functional currency of GV changed as a result of relocating GV operations. Consequently, the Company determined that the functional currency of GV changed from the euro to the U.S. dollar. Effective at the beginning of 2002, adjustments resulting from the translation of GV financial statements

into U.S. dollars are no longer charged or credited to shareholders' equity, but are now included in other expense (income).

7. Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" was effective for the Company at the beginning of fiscal year 2002. This standard provides for a single accounting model to be used for long-lived assets to be disposed of, and broadens the presentation of discontinued operations to include more disposal transactions. The adoption of SFAS No. 144 had no effect on the Company's 2002 financial position or operating results.
8. On May 7, 2002, the Board of Directors declared a three-for-two split of the Company's common stock, distributed on June 6, 2002 to shareholders of record on May 21, 2002. Share and per share amounts for all periods presented reflect the stock split.

Also on May 7, 2002, the Company issued 36,750 shares of restricted common stock to key employees under the Stock Incentive Plan. Compensation cost totaling \$1,069,000 related to the restricted shares will be charged to operations over the three-year vesting period.

GRACO INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Increased sales, improved gross profit rate and lower expenses resulted in higher net earnings for the second quarter. Year-to-date, sales are flat compared to last year, but improved gross profit rate and lower expenses resulted in increased net earnings.

The following table sets forth items from the Company's Consolidated Statements of Earnings as percentages of net sales:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 28, 2002	June 29, 2001	June 28, 2002	June 29, 2001
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	49.4	50.9	49.2	50.4
Product development	3.4	4.4	3.6	5.0
Selling, marketing and distribution	16.7	15.6	17.4	17.1
General and administrative	6.6	7.3	6.9	7.2
Operating Earnings	23.9	21.8	22.9	20.3
Interest expense	0.1	0.3	0.1	0.3
Other (income) expense, net	0.1	0.5	-	0.3
Earnings Before Income Taxes	23.7	21.0	22.8	19.7
Income taxes	7.5	7.1	7.4	6.7
Net Earnings	16.2%	13.9%	15.4%	13.0%
	=====	=====	=====	=====

Net Sales

Sales in the Industrial / Automotive segment have yet to recover from weak economic conditions in the U.S. and Japan. Sales in the Contractor segment were higher due to increased sales in the home center channel. Sales in the Lubrication segment improved in the second quarter, but were still lower than last year's year-to-date sales, which included large sales to key customers.

Sales by geographic area were as follows:

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 28, 2002	June 29, 2001	June 28, 2002	June 29, 2001
Americas	\$ 97,220	\$ 97,095	\$175,798	\$176,088
Europe	22,942	20,857	42,744	41,579
Asia Pacific	12,634	12,921	22,111	23,020
Consolidated	\$132,796	\$130,873	\$240,653	\$240,687
	=====	=====	=====	=====

For the second quarter, the strengthening of the euro versus the dollar had a small favorable effect on the Company's profits. Sales in Europe increased 10 percent but would have been only 6 percent higher than last year if translated at consistent exchange rates. Changes in exchange rates had no significant impact on sales reported for the quarter in Asia Pacific. Year-to-date, changes in exchange rates had no significant impact on the translation of euro-denominated sales in Europe, but sales in Asia Pacific decreased 4 percent

and would have decreased only 1 percent if translated at consistent exchange rates.

Gross Profit

High factory productivity, product cost improvements, product mix and price increases all contributed to higher gross profit rates compared to the same periods last year.

Operating Expenses

Product development expenses were down as a result of actions taken last year. Selling, marketing and distribution expenses increased compared to last year due in part to increased sales incentives and marketing programs. Efforts to control costs have been successful in most general and administrative areas, with the largest decrease coming from information systems.

Year-to-date operations include a \$.5 million pension credit related to the Company's U.S. defined benefit pension plan, compared to a \$1.7 million credit in the same period last year. These credits resulted from recognition of investment gains attributable to pension plan assets, and are included in cost of products sold and operating expenses based on salaries and wages.

Interest Expense and Other Expense

Interest expense decreased due to reduced debt levels and interest income (included in Other Expense) increased due to higher interest-bearing cash balances.

Liquidity and Capital Resources

Cash generated from operations in the first six months of 2002 increased cash and cash equivalents by \$37 million. Accounts receivable increased in 2002 due to extended terms on selected accounts and higher sales in the second quarter. Issuance of common stock (from stock options exercised and employee stock purchase plan) was a significant source of cash. In 2001, significant uses of cash included the construction of expanded manufacturing, warehouse and office facilities in Minneapolis, Minnesota and Sioux Falls, South Dakota, the acquisition of ASM, and reduction of debt.

The Company had unused lines of credit available at June 28, 2002 totaling \$37 million. The available credit facilities, cash balances of \$64 million at June 28, 2002, and internally generated funds provide the Company with the financial flexibility to meet liquidity needs.

Outlook

Contractor Equipment segment sales continue to benefit from the introduction of new products and a strong housing market. Even though sales in the Industrial / Automotive segment have yet to recover from economic weakness, management believes that the segment is well positioned to benefit from a recovery in North American capital equipment spending. While internal sales growth may be challenged by continued difficult economic conditions, management remains committed to high profitability while funding the Company's long-term growth strategies of introducing new products, entering new markets, expanding distribution coverage and pursuing strategic acquisitions. Management is cautiously optimistic that 2002 will be a year of higher net earnings for the Company.

SAFE HARBOR CAUTIONARY STATEMENT

A forward-looking statement is any statement made in this report and other reports that the Company files periodically with the Securities and Exchange Commission, as well as in press or earnings releases, analyst briefings and conference calls, which reflects the Company's current thinking on market trends and the Company's future financial performance at the time they are made. All forecasts and projections are forward-looking statements.

The Company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 by making cautionary statements concerning any forward-looking statements made by or on behalf of the Company. The Company cannot give any assurance that the results forecasted in any forward-looking statement will actually be achieved. Future results could differ materially from those expressed, due to the impact of changes in various factors. These risk factors include, but are not limited to: economic conditions in the United States and other major world economies, currency fluctuations, political instability, changes in laws and regulations, and changes in product demand. Please refer to Exhibit 99 to the Company's Annual Report on Form 10-K for fiscal year 2001 for a more comprehensive discussion of these and other risk

factors.

PART II

Item 4. Submission of Matters to a Vote of Security Holders

At the Annual Meeting of Shareholders held on May 7, 2002, David A. Koch, Lee R. Mitau, James H. Moar, Martha A.M. Morfitt and David A. Roberts were elected to the Office of Director with the following votes (prior to stock split):

	FOR -----	WITHHELD -----
David A. Koch	27,998,318	1,038,713
Lee R. Mitau	20,715,895	8,321,136
James H. Moar	28,548,656	488,375
Martha A.M. Morfitt	28,566,460	470,571
David A. Roberts	21,502,764	7,534,267

At the same meeting, the selection of Deloitte & Touche LLP as independent auditors for the current year was approved and ratified, with the following votes (prior to stock split):

FOR -----	AGAINST -----	ABSTENTIONS -----	BROKER NON-VOTE -----
27,707,199	1,302,366	27,466	0

No other matters were voted on at the meeting.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 3 Restated Bylaws as amended June 13, 2002
- 10 Executive Long Term Incentive Agreement. Form of agreement used for award of restricted stock to executive officers under the Graco Inc. Stock Incentive Plan with schedule of awards current as of June 28, 2002
- 10.1 Executive Group Long-Term Disability Policy
- 11 Computation of Net Earnings per Common Share
- 99 Certification of Chief Executive Officer
- 99.1 Certification of Vice President and Treasurer

(b) No reports on Form 8-K have been filed during the quarter for which this report is filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GRACO INC.

Date: August 1, 2002

By: /s/David A. Roberts

David A. Roberts
President & Chief Executive Officer

Date: July 30, 2002

By: /s/James A. Graner

James A. Graner
Vice President & Controller

Date: July 30, 2002

By: /s/Mark W. Sheahan

Mark W. Sheahan
Vice President & Treasurer

RESTATED BYLAWS

GRACO INC.
(Adopted June 13, 2002)

ARTICLE I. OFFICES, CORPORATE SEAL

Section 1.01. Offices. The principal executive office of the corporation shall be at 88 - 11th Avenue NE, Minneapolis, Minnesota 55413. The corporation may have such other offices, within or without the State of Minnesota, as the directors shall, from time to time, determine.

Section 1.02. Corporate Seal. The corporate seal shall be circular in form and shall have inscribed thereon the name of the corporation and the word "Minnesota" and the words "Corporate Seal".

ARTICLE II. MEETINGS OF SHAREHOLDERS

Section 2.01. Place of Meetings. Meetings of the shareholders shall be held at the principal executive office of the corporation or at such other place as may be designated by the directors, except that any meeting called by or at the demand of a shareholder shall be held in the county in which the principal executive office of the corporation is located.

Section 2.02. Regular Meetings. A regular meeting of the shareholders shall be held on an annual basis on such date and at such time as the Board of Directors shall by resolution establish. At a regular meeting the shareholders shall elect qualified successors for directors whose terms have expired or are due to expire within six months after the date of the meeting and shall transact such other business as may properly come before them.

Section 2.03. Special Meetings. Special meetings of the shareholders may be held at any time and for any purpose and may be called by the chief executive officer, the chief financial officer, two or more directors or a shareholder or shareholders holding 10% or more of the voting power of all shares entitled to vote, except that a special meeting called by a shareholder or shareholders for the purpose of considering any action to directly or indirectly facilitate or effect a business combination, including any action to change or otherwise affect the composition of the Board of Directors for that purpose, must be called by a shareholder or shareholders holding 25% or more of the voting power of all shares entitled to vote. A shareholder or shareholders holding the requisite percentage of the voting power may demand a special meeting of the shareholders by written notice given to the chief executive officer or chief financial officer of the corporation stating the purposes of the meeting. Within 30 days after receipt of such a demand by one of those officers, the Board of Directors shall cause a special meeting of shareholders to be called and held on notice not later than 90 days after receipt of the demand, at the expense of the corporation. Special meetings shall be held on the date and at the time and place fixed by the chief executive officer, the chief financial officer or the Board of Directors, except that a special meeting called by or at demand of a shareholder or shareholders shall be held in the county where the principal executive office is located. The business transacted at a special meeting shall be limited to the purposes stated in the notice of the meeting.

Section 2.04. Quorum, Action by Shareholders. The holders of a majority of the shares entitled to vote shall constitute a quorum for the transaction of business at any regular or special meeting. All questions shall be decided by a majority vote of the number of shares entitled to vote and represented at the meeting at the time of the vote unless otherwise required by statute, the Articles of Incorporation, or these Bylaws.

Section 2.05. Adjourned Meetings. In case a quorum shall not be present at a meeting, those present may adjourn the meeting to such day as they shall, by majority vote, agree upon, and a notice of such adjournment and the date and time at which such meeting shall be reconvened shall be mailed to each shareholder entitled to vote at least 5 days before such adjourned meeting. If a quorum is present, a meeting may be adjourned from time to time without notice other than announcement at the meeting. At adjourned meetings at which a quorum is present, any business may be transacted which might have been transacted at the meeting as originally noticed. If a quorum is present, the shareholders may continue to transact business until adjournment notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

Section 2.06. Voting. At each meeting of the shareholders every shareholder having the right to vote shall be entitled to vote either in person or by proxy. Each shareholder shall have one vote for each share having voting power

registered in such shareholder's name on the books of the corporation. Jointly owned shares may be voted by any joint owner unless the corporation receives written notice from any one of them denying the authority of that person to vote the shares. Upon the demand of any shareholder, the vote upon any question before the meeting shall be by ballot.

Section 2.07. Closing of Books. The Board of Directors may fix a date not more than 60 days preceding the date of any meeting of shareholders, as the date (the "record date") for the determination of the shareholders entitled to notice of, and to vote at, such meeting. When a record date is so fixed, only shareholders as of that date are entitled to notice of and permitted to vote at that meeting of shareholders.

Section 2.08. Notice of Meetings. Except as otherwise specified in Section 2.05 or required by law, written notice of each meeting of the shareholders, stating the date, time and place and, in the case of a special meeting, the purpose or purposes, shall be given at least ten days and not more than sixty days prior to the meeting to every holder of shares entitled to vote at such meeting. The business transacted at a special meeting of shareholders is limited to the purposes stated in the notice of the meeting.

Section 2.09. Waiver of Notice. Notice of any regular or special meeting may be waived by any shareholder either before, at or after such meeting orally or in a writing signed by such shareholder or a representative entitled to vote the shares of such shareholder. Attendance by a shareholder, at any meeting of shareholders, is a waiver of notice of such meeting, except where the shareholder objects at the beginning of the meeting to the transaction of business because the meeting is not lawfully called or convened or the item may not lawfully be considered at that meeting and the shareholder does not participate in the consideration of the item at that meeting.

Section 2.10. Advance Notice of Shareholder Proposals. As provided in Section 2.03, the business conducted at any special meeting of shareholders of the corporation shall be limited to the purposes stated in the notice of the special meeting pursuant to Section 2.08. At any regular meeting of shareholders of the corporation, only such business (other than the nomination and election of directors, which shall be subject to Section 3.15) may be conducted as shall be appropriate for consideration at the meeting of shareholders and shall have been brought before the meeting (i) by or at the direction of the Board of Directors, or (ii) by any shareholder of the corporation entitled to vote at the meeting who complies with the notice procedures hereinafter set forth in this section.

- (a) Timing of Notice. For such business to be properly brought before any regular meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the secretary of the corporation. To be timely, a shareholder's notice of any such business to be conducted at an annual shareholders meeting must be delivered to the secretary of the corporation, or mailed and received at the principal executive office of the corporation, not less than 90 days before the first anniversary of the date of the preceding year's annual shareholders meeting of shareholders. If, however, the date of the annual shareholders meeting of shareholders is more than 30 days before or after such anniversary date, notice by a shareholder shall be timely only if so delivered or so mailed and received not less than 90 days before such annual shareholders meeting or, if later, within 10 days after the first public announcement of the date of such annual shareholders meeting. To be timely, a shareholder's notice of any such business to be conducted at a regular meeting other than an annual shareholders meeting must be delivered to the secretary of the corporation, or mailed and received at the principal executive office of the corporation, not less than 90 days before such regular meeting or, if later, within 10 days after the first public announcement of the date of such regular meeting. Except to the extent otherwise required by law, the adjournment of a regular meeting of shareholders shall not commence a new time period for the giving of a shareholder's notice as required above.
- (b) Content of Notice. A shareholder's notice to the corporation shall set forth as to each matter the shareholder proposes to bring before the regular meeting (i) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting, (ii) the name and address, as they appear on the corporation's books, of the shareholder proposing such business, (iii) the class of series (if any) and number of shares of the corporation that are beneficially owned by the shareholder, (iv) any material interest of the shareholder in such business, and (v) a representation that the shareholder is a holder of record of shares entitled to vote at the meeting and intends to appear in person or by proxy at the meeting to make the proposal.

- (c) Consequences of Failure to Give Timely Notice. Notwithstanding anything in these Bylaws to the contrary, no business (other than the nomination and election of directors) shall be conducted at any regular meeting except in accordance with the procedures set forth in this Section. The officer of the corporation chairing the meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the procedures described in this Section and, if such officer should so determine, such officer shall so declare to the meeting, and any such business not properly brought before the meeting shall not be transacted. Nothing in this Section shall be deemed to preclude discussion by any shareholder of any business properly brought before the meeting in accordance with these Bylaws.
- (d) Public Announcement. For purposes of this Section and Section 3.15, "public announcement" means disclosure (i) when made in a press release reported by the Dow Jones News Service, Associated Press, or comparable national news service, (ii) when filed in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14, or 15(d) of the Securities Exchange Act of 1934, as amended, or (iii) when mailed as the notice of the meeting pursuant to Section 2.08.
- (e) Compliance with Law. Notwithstanding the foregoing provisions of this Section, a shareholder shall also comply with all applicable requirements of Minnesota law and the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder with respect to the matters set forth in this Section.

ARTICLE III. DIRECTORS

Section 3.01. General Powers. The business and affairs of the corporation shall be managed by or under the direction of the Board of Directors.

Section 3.02. Number, Qualification and Term of Office. The number of directors shall initially be ten and, thereafter, shall be fixed from time to time by the Board of Directors or by the affirmative vote of the holders of two-thirds of the voting power of the outstanding capital stock of the corporation, voting together as a single class. The directors shall be divided into three classes, as nearly equal in number as reasonably possible, with the term of office of the first class to expire at the 1988 annual meeting of shareholders, the term of office of the second class to expire at the 1989 annual meeting of shareholders and the term of office of the third class to expire at the 1990 annual meeting of shareholders. At each annual meeting of shareholders following such initial classification and election, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the third succeeding annual meeting of shareholders after their election.

Section 3.03. Board Meetings. Meetings of the Board of Directors may be held from time to time at such time and place as may be designated in the notice of such meeting.

Section 3.04. Calling Meetings; Notice. Meetings of the Board of Directors may be called by the chief executive officer by giving at least twenty-four hours' notice, or by any other director by giving at least five day's notice, of the date, time and place thereof to each director by mail, telephone, telegram or in person. If the day or date, time and place of a Board meeting have been announced at a previous meeting of the Board, no notice is required. Notice of an adjourned meeting need not be given other than by announcement at the meeting at which adjournment is taken of the date, time and place at which the meeting will be reconvened.

Section 3.05. Waiver of Notice. Notice of any meeting of the Board of Directors may be waived by any director either before, at, or after such meeting orally or in a writing signed by such director. A director, by his attendance at any meeting of the Board of Directors, shall be deemed to have waived notice of such meeting, except where the director objects at the beginning of the meeting to the transaction of business because the meeting is not lawfully called or convened and does not participate thereafter in the meeting.

Section 3.06. Quorum. A majority of the directors holding office immediately prior to a meeting of the Board of Directors shall constitute a quorum for the transaction of business at such meeting.

Section 3.07. Absent Directors. A director may give advance written consent or opposition to a proposal to be acted on at a meeting of the Board of Directors. If such director is not present at the meeting, consent or opposition to a proposal does not constitute presence for purposes of determining the

existence of a quorum, but consent or opposition shall be counted as a vote in favor of or against the proposal and shall be entered in the minutes or other record of action at the meeting, if the proposal acted on at the meeting is substantially the same or has substantially the same effect as the proposal to which the director has consented or objected.

Section 3.08. Conference Communications. Any or all directors may participate in any meeting or conference of the Board of Directors, or of any duly constituted committee thereof, by any means of communication through which the directors may simultaneously hear each other during such meeting. For the purposes of establishing a quorum and taking any action, such directors participating pursuant to this Section 3.08 shall be deemed present in person at the meeting.

Section 3.09. Vacancies. Subject to the rights of the holders of any series of Preferred Stock then outstanding, newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause may be filled by a majority vote of the directors then in office though less than a quorum, and directors so chosen shall hold office for a term expiring at the next annual meeting of shareholders. No decrease in the number of directors constituting the Board of Directors shall shorten the term of any incumbent director.

Section 3.10. Removal. Any directors, or the entire Board of Directors, may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of the proportion or number of the voting power of the shares of the classes or series the director represents sufficient to elect them.

Section 3.11. Committees. A resolution approved by the affirmative vote of a majority of the Board of Directors may establish committees having the authority of the Board in the management of the business of the corporation to the extent provided in the resolution. A committee shall consist of one or more persons, who need not be directors, appointed by affirmative vote of a majority of the directors present. Committees are subject to the direction and control of, and vacancies in the membership thereof shall be filled by, the Board of Directors, except as provided by Section 3.12 and by Minnesota Statutes Section 302A.243. A majority of the members of the committee holding office immediately prior to a meeting of the committee shall constitute a quorum for the transaction of business, unless a larger or smaller proportion or number is provided in the resolution establishing the committee.

Section 3.12. Committee of Disinterested Persons. Pursuant to the procedure set forth in Section 3.11, the Board may establish a committee composed of two or more disinterested directors or other disinterested persons to determine whether it is in the best interests of the corporation to pursue a particular legal right or remedy of the corporation and whether to cause the dismissal or discontinuance of a particular proceeding that seeks to assert a right or remedy on behalf of the corporation. The committee, once established, is not subject to the direction or control of, or termination by, the Board. A vacancy on the committee may be filled by a majority of the remaining committee members. The good faith determinations of the committee are binding upon the corporation and its directors, officers and shareholders. The committee terminates when it issues a written report of its determination to the Board.

Section 3.13. Written Action. Any action which might be taken at a meeting of the Board of Directors, or any duly constituted committee thereof, may be taken without a meeting if done in writing and signed by all of the directors or committee members, unless the Articles provide otherwise and the action need not be approved by the shareholders.

Section 3.14. Compensation. The Board may fix the compensation, if any, of directors.

Section 3.15. Nomination of Director Candidates. Only persons who are nominated in accordance with the procedures set forth in this Section 3.15 shall be eligible for election as directors. Nominations of persons for election to the Board of Directors of the corporation may be made at a meeting of shareholders (i) by or at the direction of the Board of Directors, or (ii) by any shareholder of the corporation entitled to vote for the election of directors at the meeting who complies with the notice procedures hereinafter set forth in this Section.

- (a) Timing of Notice. Nominations by shareholders shall be made pursuant to timely notice in writing to the secretary of the corporation. To be timely, a shareholder's notice of nominations to be made at an annual shareholders meeting of shareholders must be delivered to the secretary of the corporation, or mailed and received at the principal executive office of the corporation, not less than 90 days before the first anniversary date of the preceding year's annual shareholders

meeting of shareholders. If, however, the date of the annual shareholders meeting of shareholders is more than 30 days before or after such anniversary date, notice by a shareholder shall be timely only if so delivered or so mailed and received not less than 90 days before such annual shareholders meeting or, if later, within 10 days after the first public announcement of the date of such annual shareholders meeting. If a special meeting of shareholders of the corporation is called in accordance with Section 2.03 for the purpose of electing one or more directors to the Board of Directors or if a regular meeting other than an annual shareholders meeting is held, for a shareholder's notice of nominations to be timely it must be delivered to the secretary of the corporation, or mailed and received at the principal executive office of the corporation, not less than 90 days before such special meeting or such regular meeting or, if later, within 10 days after the first public announcement of the date of such special meeting or such regular meeting. Except to the extent otherwise required by law, the adjournment of a regular or special meeting of shareholders shall not commence a new time period for the giving of a shareholder's notice as described above.

- (b) Content of Notice. A shareholder's notice to the corporation of nominations for a regular or special meeting of shareholders shall set forth (x) as to each person whom the shareholder proposes to nominate for election or re-election as a director: (i) such person's name, age, business address and residence address and principal occupation or employment, (ii) all other information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or that is otherwise required, pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, and (iii) such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; and (y) as to the shareholder giving the notice: (i) the name and address, as they appear on the corporation's books, or such shareholder, (ii) the class or series (if any) and number of shares of the corporation that are beneficially owned by such shareholder, and (iii) a representation that the shareholder is a holder of record of shares of the corporation entitled to vote for the election of directors and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice. At the request of the Board of Directors, any person nominated by the Board of Directors for election as a director shall furnish to the secretary of the corporation the information required to be set forth in a shareholder's notice of nomination that pertains to a nominee.
- (c) Consequences of Failure to Give Timely Notice. Notwithstanding anything in these Bylaws to the contrary, no person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth in this Section. The officer of the corporation chairing the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed in this Section and, if such officer should so determine, such officer shall so declare to the meeting, and the defective nomination shall be disregarded.

ARTICLE IV. OFFICERS

Section 4.01. Number and Designation. The corporation shall have one or more natural persons exercising the functions of the offices of chief executive officer and chief financial officer. The Board of Directors may elect or appoint such other officers or agents as it deems necessary for the operation and management of the corporation, with such powers, rights, duties and responsibilities as may be determined by the Board, including, without limitation, a Chairman of the Board, a President, one or more Vice Presidents, a Secretary, A Treasurer, and such assistant officers or other officers as may from time to time, be elected or appointed by the Board. Each such officer shall have the powers, rights, duties and responsibilities set forth in these Bylaws unless otherwise determined by the Board. Any number of offices may be held by the same person.

Section 4.02. Chief Executive Officer. Either the Chairman of the Board, the President or another officer of the corporation may be designated from time to time by the Board to be the chief executive officer of the corporation. Unless provided otherwise by a resolution adopted by the Board of Directors, the chief executive officer (a) shall have general active management of the business of the corporation; (b), shall, when present, preside at all meetings of the shareholders; (c) shall see that all orders and resolutions of the Board are carried into effect; (d) shall sign and deliver in the name of the corporation any deeds, mortgages, bonds, contracts or other instruments pertaining to the business of the corporation, except in cases in which the authority to sign and deliver is required by law to be exercised by another person or is expressly

delegated by these Bylaws or the Board to some other officer or agent of the corporation; (e) may maintain records of and certify proceedings of the Board and shareholders; and (f) shall perform such other duties as may from time to time be assigned to him by the Board.

Section 4.03. Chief Operating Officer. The chief operating officer (if one is elected by the Board) shall be either the President or a Vice President. He shall be responsible for the management of all of the operations of the corporation's business and shall have such other authority and duties as the Board of Directors or the chief executive officer from time to time may prescribe. He shall report to the chief executive officer and be responsible to him. He may also execute and deliver in the name of the corporation any instruments or documents pertaining to the business of the corporation which could be executed by the chief executive officer.

Section 4.04. Chief Financial Officer. Unless provided otherwise by a resolution adopted by the Board of Directors, the chief financial officer (a) shall keep accurate financial records for the corporation; (b) shall deposit all monies, drafts and checks in the name of and to the credit of the corporation in such banks and depositories as the Board of Directors shall designate from time to time; (c) shall endorse for deposit all notes, checks and drafts received by the corporation as ordered by the Board, making proper vouchers therefor; (d) shall disburse corporate funds and issue checks and drafts in the name of the corporation, as ordered by the Board; (e) shall render to the chief executive officer and the Board of Directors, whenever requested, an account of all of his transactions as chief financial officer and of the financial condition of the corporation; and (f) shall perform such other duties as may be prescribed by the Board of Directors or the chief executive officer from time to time.

Section 4.05. Chairman of the Board. The Chairman of the Board, if one is elected, shall preside at all meetings of the directors and shall have such other duties as may be prescribed, from time to time, by the Board of Directors.

Section 4.06. President. Unless otherwise determined by the Board, the President shall be the chief executive officer of the corporation and shall supervise and control the business affairs of the corporation. If an officer other than the President is designated chief executive officer, the President shall perform such duties as may from time to time be assigned to him by the Board.

Section 4.07. Vice President. The Board of Directors may designate one or more Vice Presidents, who shall have such designations and powers and shall perform such duties as prescribed by the Board of Directors or by the President. In the event of the absence or disability of the President, Vice Presidents shall succeed to his power and duties in the order designated by the Board of Directors.

Section 4.08. Secretary. The Secretary shall be secretary of and shall attend all meetings of the shareholders and Board of Directors and shall record all proceedings of such meetings in the minute book of the corporation. Except as otherwise required or permitted by statute or by these Bylaws, the Secretary shall give notice of meetings of shareholders and directors. The Secretary shall perform such other duties as may, from time to time, be prescribed by the Board of Directors or by the chief executive officer.

Section 4.09. Treasurer. Unless otherwise determined by the Board, the Treasurer shall be the Chief Financial Officer of the Corporation. If an officer other than the Treasurer is designated Chief Financial Officer, the Treasurer shall perform such duties as may from time to time be assigned to him by the Board.

Section 4.10. Authority and Duties. In addition to the foregoing authority and duties, all officers of the corporation shall respectively have such authority and perform such duties in the management of the business of the corporation as may be determined from time to time by the Board of Directors. Unless prohibited by a resolution of the Board of Directors, an officer elected or appointed by the Board may, without specific approval of the Board, delegate some or all of the duties and powers of an office to other persons.

Section 4.11. Removal and Vacancies. Any officer may be removed from his office by the Board of Directors at any time, with or without cause. Such removal, however, shall be without prejudice to the contract rights of the person so removed. If there be a vacancy among the officers of the corporation by reason of death, resignation or otherwise, such vacancy shall be filled for the unexpired term by the Board of Directors.

Section 4.12. Compensation. The officers of this corporation shall receive such compensation for their services as may be determined by or in accordance with resolutions of the Board of Directors.

ARTICLE V.
SHARES AND THEIR TRANSFER

Section 5.01. Certificated and Uncertificated Shares. Shares of the Corporation's stock may be certificated or uncertificated, as provided under Minnesota law. All certificates of stock of the Corporation shall be numbered and shall be entered in the books of the Corporation as they are issued. They shall exhibit the holder's name and number of shares and shall be signed, in the name of the corporation, by the President or any Vice President and by the Secretary or an Assistant Secretary or by such officers as the Board of Directors may designate. Any or all of the signatures on the certificate may be a facsimile.

Section 5.02. Transfer of Stock. Transfers of stock shall be made on the books of the Corporation only by the record holder of such stock, or the record holder's legal representative, or the record holder's duly authorized attorney-in-fact, and in the case of stock represented by a certificate, upon surrender of the certificate. The Corporation may treat as the absolute owner of shares of the Corporation, the person or persons in whose name the shares are recorded on the books of the Corporation. The Board of Directors may appoint one or more transfer agents and registrars to maintain the share records of the Corporation and to effect share transfers on its behalf.

Section 5.03. Loss of Certificates. Any shareholder claiming a certificate for shares to be lost, stolen or destroyed shall make an affidavit of that fact in such form as the Board of Directors shall require and shall, if the Board of Directors so requires, give the corporation a bond of indemnity in form, in an amount, and with one or more sureties satisfactory to the Board of Directors, to indemnify the corporation against any claim which may be made against it on account of the reissue of such certificate, whereupon a new certificate may be issued in the same tenor and for the same number of shares as the one alleged to have been lost, stolen or destroyed.

ARTICLE VI.
DIVIDENDS, RECORD DATE

Section 6.01. Dividends. The Board of Directors shall have the authority to declare dividends and other distributions upon shares to the extent permitted by law.

Section 6.02. Record Date. The Board of Directors may fix a date not exceeding 60 days preceding the date fixed for the payment of any dividend as the record date for the determination of the shareholders entitled to receive payment of the dividend and, in such case, only shareholders of record on the date so fixed shall be entitled to receive payment of such dividend.

ARTICLE VII.
SECURITIES OF OTHER CORPORATIONS.

Section 7.01. Voting Securities Held by the Corporation. The chief executive officer shall have full power and authority on behalf of the corporation (a) to attend any meeting of security holders of other corporations in which the corporation may hold securities and to vote such securities on behalf of this corporation; (b) to execute any proxy for such meeting on behalf of the corporation; or (c) to execute a written action in lieu of a meeting of such other corporation on behalf of this corporation. At such meeting, the chief executive officer shall possess and may exercise any and all rights and powers incident to the ownership of such securities that the corporation possesses. The Board of Directors or the chief executive officer may, from time to time, confer or delegate such powers to one or more other persons.

Section 7.02. Purchase and Sale of Securities. The chief executive officer shall have full power and authority on behalf of the corporation to purchase, sell, transfer or encumber any and all securities of any other corporation owned by the corporation, and may execute and deliver such documents as may be necessary to effectuate such purchase, sale, transfer or encumbrance. The Board of Directors or the chief executive officer may, from time to time, confer or delegate such powers to one or more other persons.

ARTICLE VIII.
INDEMNIFICATION OF CERTAIN PERSONS

Section 8.01. The corporation shall indemnify officers and directors, for such expenses and liabilities, in such manner, under such circumstances, and to such extent as permitted by Minnesota Statutes Section 302A.521, as now enacted or hereafter amended.

ARTICLE IX.
AMENDMENTS

Section 9.01. These Bylaws may be amended or altered by the Board of Directors at any meeting if notice of such proposed amendment shall have been given in the notice of such meeting. Such authority in the Board of Directors is subject to (a) the limitations imposed by Minnesota Statutes Section 302A.181, as now enacted or hereafter amended, or other applicable law and (b) the power of the shareholders to change or repeal such Bylaws by a majority vote of the shareholders present or represented at any meeting of shareholders called for such purpose.

GRACO EXECUTIVE
LONG TERM INCENTIVE AGREEMENT
RESTRICTED STOCK AWARD

This Agreement is made as of the 7th day of May, 2002, between Graco Inc., a Minnesota corporation (the "Company"), and ----- (the "Employee")

pursuant to the Graco Inc. Stock Incentive Plan (the "Plan"). Unless otherwise defined herein, terms used herein shall have the meanings assigned to them under the Plan.

WITNESSETH:

WHEREAS, the Management Organization and Compensation Committee of the Board of Directors (the "Committee"), in order to provide further incentive to the Employee to continue his service to the Company and to more closely align his interests with those of the shareholders, believes that it is appropriate to make an award of restricted Common Shares to the Employee; and

WHEREAS, the Plan contemplates that a restricted stock award should be evidenced by a written agreement, executed by the Company and the Employee containing such restrictions, terms and conditions as may be required by the Plan and the Committee;

NOW THEREFORE, in consideration of the premises and mutual agreements hereinafter set forth, the Employee and the Company hereby agree as follows:

1. Award.

The Company, effective as of the date of this Agreement, hereby grants to the Employee an award (the "Award") of ----- Common Shares, \$1.00 par value, of the Company ("Common Shares") subject to the restrictions, terms and conditions set forth below and in the Plan.

2. Vesting of Stock.

(a) The Common Shares awarded by this Agreement shall vest in the Employee as of the third anniversary of the date of this Agreement, except as otherwise provided herein.

(b) In the event of a "Change of Control", the Award shall immediately vest in full. A "Change of Control" means:

(i) acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act of 1934), (a "Person"), of beneficial ownership (within the meaning of Rule 13d-3 under the 1934 Act) which results in the beneficial ownership by such Person of 25% or more of either

A. the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or

B. the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities");

provided, however, that the following acquisitions will not result in a Change of Control:

- (1) an acquisition directly from the Company,
- (2) an acquisition by the Company,
- (3) an acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company,
- (4) an acquisition by any Person who is deemed to have beneficial ownership of the Company common stock or other Company voting securities owned immediately after said acquisition by the Trust Under the Will of Clarissa L. Gray ("Trust Person"), provided that such acquisition does not result in the beneficial ownership by such Person of 32% or more of either the Outstanding Company Common Stock or the Outstanding Company Voting

Securities, and provided further that for purposes of this Section 2, a Trust Person shall not be deemed to have beneficial ownership of the Company common stock or other Company voting securities owned by The Graco Foundation or any employee benefit plan of the Company, including without limitation the Graco Employee Retirement Plan and the Graco Employee Stock Ownership Plan,

- (5) an acquisition by the Employee or any group that includes the Employee, or
- (6) an acquisition by any corporation pursuant to a transaction that complies with clauses (A), (B) and (C) of Section 2 (a)(iii) below; and

provided, further, that if any Person's beneficial ownership of the Outstanding Company Common Stock or Outstanding Company Voting Securities is 25% or more as a result of a transaction described in clause (1) or (2) above, and such Person subsequently acquires beneficial ownership of additional Outstanding Company Common Stock or Outstanding Company Voting Securities as a result of a transaction other than that described in clause (1) or (2) above, such subsequent acquisition will be treated as an acquisition that causes such Person to own 25% or more of the Outstanding Company Common Stock or Outstanding Company Voting Securities and be deemed a Change of Control; and provided further, that in the event any acquisition or other

transaction occurs which results in the beneficial ownership of 32% or more of either the Outstanding Company Common Stock or the Outstanding Company Voting Securities by any Trust Person, the Incumbent Board may by majority vote increase the threshold beneficial ownership percentage to a percentage above 32% for any Trust Person; or

- (ii) Individuals who, as of the date hereof, constitute the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of said Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board will be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial membership on the Board occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or
- (iii) The commencement or announcement of an intention to make a tender offer or exchange offer, the consummation of which would result in the beneficial ownership by a Person of 25% or more of the Outstanding Company Common Stock or Outstanding Company Voting Securities; or
- (iv) The approval by the shareholders of the Company of a reorganization, merger, consolidation or statutory exchange of Outstanding Company Common Stock or Outstanding Company Voting Securities or sale or other disposition of all or substantially all of the assets of the Company ("Business Combination") or, if consummation of such Business Combination is subject, at the time of such approval by stockholders, to the consent of any government or governmental agency, the obtaining of such consent (either explicitly or implicitly by consummation); excluding, however, such a Business Combination pursuant to which
 - A. all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Company Common Stock or Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 80% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation that as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) in

substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock or Outstanding Company Voting Securities,

- B. no Person [excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination] beneficially owns, directly or indirectly, 25% or more of the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and
- C. at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(v) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

(vi) A Change of Control shall not be deemed to have occurred with respect to The Employee_ if:

- (A) the acquisition of the 25% or greater interest referred to in Section 2(b)(i) is by a group, acting in concert, that includes The Employee; or
- (B) if at least 25% of the then outstanding common stock or combined voting power of the then outstanding company voting securities (or voting equity interests) of the surviving corporation or of any corporation (or other entity) acquiring all or substantially all of the assets of the Company shall be beneficially owned, directly or indirectly, immediately after a reorganization, merger, consolidation, statutory share exchange, disposition of assets, liquidation or dissolution referred to in subsections (v) and (vi) of this Section 2(b) by a group, acting in concert, that includes the Employee.

(c) Until the Common Shares awarded hereunder vest, the Employee acknowledges that he may not, and agrees that he shall not, transfer his rights to such Common Shares. Until Common Shares awarded hereunder vest, no attempt to transfer such Common Shares, whether voluntary or involuntary, by operation of law or otherwise, shall vest the transferee with any interest or right in or with respect to such Common Shares.

3. Termination.

- (a) If the Employee: (i) is terminated by the Company for any reason other than gross and willful misconduct; (ii) quits or resigns because his compensation or benefits are reduced (other than reductions in benefits resulting from changes in Graco's employee benefit programs affecting officers generally), his responsibilities, duties or position are substantially diminished; (iii) retires in accordance with Section 3(c) below; or (iv) dies or becomes disabled (as determined under the Company's Long Term Disability Plan) before the vesting date under Section 2(a), then upon such event the Common Stock awarded by this Agreement shall vest.
- (b) If the Employee terminates employment with the Company for any other reason, including a termination by the Company for gross and willful misconduct, his rights to any unvested portion of this Award shall be immediately and irrevocably forfeited. For purposes of this Agreement, gross and willful misconduct includes wrongful appropriation of Company funds, serious violation of Company policy, breach of fiduciary duty or conviction of a felony.
- (c) If the Employee chooses to terminate his/her employment by retirement, which for purposes of this Agreement is defined as a voluntary termination after attaining age 55 with 10 years of service with the Company or after attaining age 65, the Common Stock award granted by this Agreement shall vest only in the event that: (i) the Employee has given written notice to the Chief Executive Officer of said intention to retire not less than six (6) months prior to the date of his/her proposed retirement; and (ii) the Chief Executive Officer, in his/her

sole discretion and judgement, determines that termination of employment by retirement of the Employee is in the best interests of the Company. If the Chief Executive Officer does not so determine, the retirement shall be considered a termination subject to Section 3(b) above. If the Chief Executive Officer does so determine, he/she may allow, in his/her sole judgement and discretion, the termination by retirement to occur prior to the end of the six (6) month notice period.

4. Issuance and Custody of Certificate.

- (a) The Company shall cause to be issued one or more stock certificates, registered in the name of the Employee evidencing the restricted Common Shares awarded pursuant to Section 1. Each such certificate shall bear the following legend:

The shares of stock represented by this certificate are subject to forfeiture and the transferability of this certificate and the shares of stock represented hereby are subject to the restrictions, terms and conditions (including restrictions against transfer) contained in the Graco Inc. Long Term Stock Incentive Plan and an Agreement entered into between the registered owner of such shares and Graco Inc. A copy of the Plan and Agreement is on file in the office of the Secretary of Graco Inc., 88 11th Ave. N.E., Minneapolis, MN. 55413.

- (b) Each certificate issued pursuant to Section 4(a), together with the stock powers relating to such Common Shares, shall be deposited by the Company with the Secretary of the Company or a custodian designated by such Secretary. The Secretary or such custodian shall issue a receipt to the Employee evidencing the certificates held which are registered in the name of the Employee.
- (c) Promptly after any Common Shares vest pursuant to this Agreement, the Company shall cause to be issued certificates evidencing such Common Shares, free of the legend provided in Section 4(a) and shall cause such certificates to be delivered to the Employee (or he Employee's legal representatives, beneficiaries or heirs).
- (d) The Employee shall not be deemed for any purpose to be, or have rights as, a shareholder of the Company by virtue of the Award, until a stock certificate is issued therefor pursuant to Section 4(a).

5. Agreements of The Employee.

The Employee acknowledges and agrees that: (a) this Agreement is not a contract of employment and the terms of the Employee's employment shall not be affected in any way by this Agreement except as specifically provided in the Agreement; (b) the Award made by this Agreement shall not confer any legal rights upon the Employee for continuation of employment or interfere with or limit the right of the Company to terminate he Employee's employment at any time; (c) the Board may amend, suspend or terminate the Plan or any part thereof at any time provided that no amendment, suspension or termination shall be made or effected which would adversely affect any right of the Employee with respect to the Award made by this Agreement without the written consent of the Employee unless such amendment, termination or suspension is required by applicable law; and (e) the Employee shall not make an election pursuant to Section 83(b) of the Internal Revenue Code of 1986, with respect to the Award.

6. Legal Compliance Restrictions.

The Company shall not be obligated to issue or deliver any certificates evidencing Common Shares awarded by this Agreement unless and until the Company is advised by its counsel that the issuance and delivery of such certificates are in compliance with all applicable laws, regulations of governmental authorities and the requirements of the New York Stock Exchange or any other exchange upon which Common Shares are traded.

The Company shall not be obligated to register any securities pursuant to the Securities Act of 1933 (as now in effect or as hereinafter amended) or to take any other affirmative action in order to cause the issuance and delivery of such certificates to comply with any such law, regulation or requirement. The Committee may require, as a condition of the issuance and delivery of such certificates and in order to ensure compliance with such laws, regulations and requirements, that the Employee make such agreements and representations as the Committee, in its sole discretion, deems necessary or desirable.

7. Withholding Taxes.

The Employee agrees to pay, or make arrangements reasonably satisfactory to the Company for the payment, to the Company of the amount of any taxes that the Company is required by law to withhold with respect to the Award made by this Agreement. Such payment shall be due on the date the Company is required to withhold such taxes. In the event that such payment is not made when due, the Company shall have the right (a) to retain, or sell within 10 days notice or such longer notice as may be required by applicable law, a sufficient number of the Common Shares subject to any Award made to the Employee in order to cover all or part of the amount required to be withheld; (b) to deduct, to the extent permitted by law, from any payment of any kind otherwise due to such person from the Company all or a part of the amount required to be withheld or (c) to pursue any other remedy at law or in equity. The Employee may satisfy any such tax obligation, in whole or in part, by: (i) electing to have the Company withhold Common Shares otherwise to be delivered with a fair market value equal to the amount of such tax obligation; or (ii) electing to surrender to the Company previously owned Common Shares with a fair market value equal to the amount of such tax obligation. The election must be made on or before the date that the amount of tax to be withheld is determined.

8. Stock Splits, Recapitalizations, Acquisitions, etc.

- (a) In the event of any change in the number of outstanding Common Shares by reason of any stock dividend or split, recapitalization, merger, consolidation, combination or exchange of shares or similar corporate change, the number and kind of shares subject to this Award shall be appropriately adjusted. If changes in capitalization of the Company other than those referred to above shall occur, the Committee may, but need not, make such adjustments in the number and kind of shares available under this Award as the Committee may deem appropriate.

To the extent permitted by applicable law, the Award of a Common Share shall be adjusted so that the Employee shall have the right to receive under the Award and subject to the Plan securities and other property (except regular quarterly cash dividends) with respect to the Award as a result of any stock dividend or split, special cash dividend, recapitalization, merger, consolidation, combination of shares or exchange of shares or similar corporate change or otherwise substantially similar to that the Employee would have received with respect to the Common Shares had the Employee owned the Common Shares free and clear of the restrictions under this Agreement. Unless the Committee otherwise determines, the Employee's right in respect of such securities and other property shall not vest until such Common Shares would have vested and no such securities or other property shall be issued or delivered until such Common Shares would be issued or delivered.

- (b) Unless the Committee otherwise determines, any securities and other property (except regular quarterly cash dividends) received by the Employee as a result of a corporate change described in Section 8(a) or otherwise with respect to a Common Share prior to the date such Common Share vests shall be promptly deposited with the Secretary or the custodian designated by the Secretary to be held in custody in accordance with Section 4(b) as though such securities and other property were part of such Common Share.

9. Notices.

Any notice which either party hereto or the Committee may be required or permitted to give to the other with respect to the Plan or this Agreement shall be in writing, and may be delivered personally or by mail, postage prepaid, addressed as follows:

- (a) if to the Company:

Graco Inc.
P.O. Box 1441
Minneapolis, MN 55440-1441
Attention: Vice President, Human Resources

- (b) if to the Committee:

Management Organization and Compensation Committee
c/o Vice President, Human Resources
Graco Inc.

P.O. Box 1441
Minneapolis, MN 55440-1441

(c) if to The Employee:

Mr.

Graco Inc.
P.O. Box 1441
Minneapolis, MN 55440-1441

or to such other address as the person to whom the notice is directed shall have designated in writing to others.

10. Minnesota Law.

This Agreement is made and accepted in the State of Minnesota. The laws of the state of Minnesota shall control the interpretation and performance of the terms of the Plan and of this Agreement.

11. Binding Effect.

This Agreement shall be binding upon, and shall inure to the benefit of, the respective successors, assigns, heirs, executors, administrators and guardians of the parties hereto.

IN WITNESS WHEREOF, the Company and the Employee have caused this Agreement to be executed and delivered, all as of the day and year first above written.

GRACO INC.

EMPLOYEE

By:

David A. Roberts
President and Chief Executive Officer

(print name)

Schedule Identifying Restricted Stock Award Agreements Executed and
Material Details in which Executed Agreements Differ from Agreement Copy Filed
Current as of June 28, 2002

DATE	NAME	SHARES
-----	-----	-----
May 7, 2002	Steven Bauman	1500
May 7, 2002	Dan Christian	1500
May 7, 2002	James Graner	2500
May 7, 2002	Dale Johnson	2500
May 7, 2002	D. Christian Koch	2500
May 7, 2002	David Lowe	2500
May 7, 2002	Robert Mattison	1500
May 7, 2002	Patrick McHale	2500
May 7, 2002	Charles Rescorla	2500
May 7, 2002	Mark Sheahan	2500
May 7, 2002	Fred Sutter	2500

THE PAUL REVERE LIFE INSURANCE COMPANY
Worcester, Massachusetts 01608

Amendment No. PD8-1

Group Policy Number: G-42326

Policyholder: GRACO INC.

Effective Date of Revision: April 1, 1995

It is hereby understood and agreed upon that the above group policy or policies issued by the Paul Revere Life Insurance Company shall be amended as follows:

Said group policy with any of its amendments is deleted and the attached group policy is substituted therefore.

This amendment is hereby incorporated into and made a part of the said group policy or policies.

THE PAUL REVERE LIFE INSURANCE COMPANY

January 23, 1996

- -----
Date of Issue

/s/John H. Budd
- -----
Secretary

/s/Charles E. Soula
- -----
President

AMD

94-3

The Paul Revere Life
Insurance Company

Group Policy Number: 42326
Policyholder: GRACO INC.
Effective Date: March 1, 1993
State of Issue: Minnesota
Revision Date: April 1, 1995

THE PAUL REVERE LIFE INSURANCE COMPANY agrees to pay the Group Insurance Benefits set forth in this Policy. This Policy provides long term disability insurance benefits for the replacement of income loss due to Disability. Benefits are paid to or on behalf of all Employees of the policyholder who become insured according to the provisions of this Policy. This Policy is based upon yearly renewable term products. The duration of this Policy, subject to Termination and all other Policy provisions, is shown in the Duration Rider.

The premium for the benefits provided by this Policy shall be paid by the policyholder. All premiums are computed according to the provisions of this Policy. The first premium is due on the date this Policy begins. All other premiums due while this Policy is in force are to be paid in advance monthly on the premium due date.

The provisions on the following pages are part of this Policy.

Signed by the officers of The Paul Revere Life Insurance Company at Worcester, Massachusetts.

/s/John H. Budd
- -----
Secretary

/s/Charles E. Soula
- -----
President

GROUP INSURANCE POLICY

NON-PARTICIPATING

POLICYHOLDER SUBSIDIARIES AND AFFILIATES APPROVED FOR COVERAGE

Application to add an affiliate or subsidiary must be made in writing on an approved application form. All agreements made between the policyholder and Us are binding on all Employers. The list of approved affiliates and/or subsidiaries is shown below.

The policyholder acts for and on behalf of all accepted Employers. All agreements made between the policyholder and Us are binding on all Employers. No other Employer may discontinue, modify, reduce or terminate this Policy.

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SCHEDULE OF BENEFITS

Classification of Eligible Employees:

Class 1 - Corporate Officers and Executive Officers earning a minimum base salary of \$105,000; Sales Directors whose base salary and on-plan bonus together total \$105,000 or more; and, other Managing Directors earning a minimum base salary of \$105,000.

Amount of Disability Income Benefit:

- - - - -

33.33% of the first \$12,000.00 of Monthly Earnings and

67% of the remaining Monthly Earnings:

Maximum Benefit: \$17,500.00 per month.

Minimum Benefit: 15% of basic monthly earnings,
up to a maximum of \$100.00

Non-Evidence Limit: \$16,000.00 Maximum Monthly Benefit

- - - - -

Maximum Benefit Period:

- - - - -

Insured's Age When
Disability Begins

Maximum Benefit Period

- - - - -

- - - - -

Less than Age 60

To Age 65

Age 60

5 Years

Age 61

4 Years

Age 62

42 Months

Age 63

36 Months

Age 64

30 Months

Age 65

24 Months

Age 66

21 Months

Age 67

18 Months

Age 68

15 Months

Age 69 and over

12 Months

Elimination Period: 180 Days

- - - - -

PD8-SOB

SB

93-8

GENERAL PROVISIONS

DEFINITIONS

Here are some of the terms used in this Policy. Other terms are defined where used in this Policy. All defined terms are important in describing rights under this Policy. Please refer back to these meanings as you read. Defined terms are presented with capital letters to help identify them as such. Masculine pronouns used in this Policy apply to both sexes.

ACTIVELY AT WORK or ACTIVE WORK means that an Employee

1. is present at the Employer's place of business or a work site other than the Employee's home, as designated by the Employer; and
2. is performing the duties of his job; and
3. is producing the work product required by his job.

DISABLED OR DISABILITY -- these terms mean either Total Disability or Residual Disability. The definitions of these terms are presented in the Long Term Disability Benefit (Section 2). One or more may apply to the Employee.

DOCTOR means a person, other than the insured, who is licensed to practice the healing arts and who is practicing within the scope of his license. The term covers only a licensed medical practitioner whose services are required to be covered by the law of the jurisdiction where the treatment is rendered. See the CLAIMS section for the provision on CHOICE OF DOCTOR.

DOCTOR'S CARE means the regular and personal care of a Doctor that, under prevailing medical standards, is appropriate for the condition causing the Disability.

EARNINGS (SALES DIRECTORS) means, for purposes of determining an Employee's total disability benefit, the Employee's basic annual, monthly or weekly pay based on a Work week of not more than 40 hours, prior to becoming disabled and as last reported to Us in writing by the Employer and verified by Us. It includes earnings from Incentive Bonuses, but not overtime or other special pay. Incentive Bonuses are averaged for the lesser of the 24 month period immediately prior to the date disability begins or the period of employment. Earnings from sources other than the Employer are not included in determining total disability benefits.

GENERAL PROVISIONS

DEFINITIONS

EARNINGS (ALL OTHER EMPLOYEES) means, for purposes of determining an Employee's total disability benefit, the Employee's basic annual, monthly or weekly pay based on a work week of not more than 40 hours, prior to becoming disabled and as last reported to Us in writing by the Employer and verified by Us. Commissions, bonuses, overtime or other special pay is not included. Earnings from sources other than the Employer are not included in determining total disability benefits.

GENERAL PROVISIONS

DEFINITIONS

EMPLOYEE means any person who works Full-time for the Employer. An Employee must be paid by the Employer for work done at the Employer's usual place of business or some other location that is usual for the Employee's particular duties.

For the purposes of this long term disability benefit, the term Employee does not include any person performing services for the Employer

- o pursuant to a contractual relationship with the Employer;
- o subject to the terms of a leasing agreement between the Employer and a leasing organization; or
- o who receives income which is reported by the Employer on IRS Form 1099.

EMPLOYER means the policyholder or a branch or a division of the policyholder, and any company legally affiliated with or subsidiary to the policyholder that has been approved by Us.

A SUBSIDIARY is an entity with controlling stock ownership (51 % or more) held by the Employer who is the policyholder.

An AFFILIATE is a company whose business is controlled by the policyholder through stock ownership, contract, common officers or otherwise.

EVIDENCE OF INSURABILITY means written proof given to Us that an Employee is insurable. This proof must be based on medical and financial information and must be acceptable to Us.

FULL-TIME means, for an Employee, his Employer's normal work week of at least 30 hours. For Employees whose work weeks vary above and below this number, We will determine eligibility by averaging the hours worked during weeks in the month.

IMPORTANT DUTIES means, with respect to an Employee's occupation, the material and substantial duties of that occupation.

INCURRED DATE OF DISABILITY means the first date the Employee satisfies the required definition of Disability. This date is determined by Us.

INJURY means accidental bodily loss or harm incurred while insured under this Policy.

MONTHLY EARNINGS means the Employee's annualized Earnings divided by twelve (12).

NON-EVIDENCE LIMIT means the greatest amount of insurance an Employee may have without providing Evidence of Insurability.

1. The Employee may be eligible for more than this amount initially; or
2. the amount of existing insurance may be increased to an amount in excess of any NonEvidence Limit; or
3. the amount of insurance currently in excess of the Non-Evidence Limit may be further increased.

In any of these situations, the Employee must send Us Evidence of Insurability. If We do not approve the Evidence of Insurability, the Employee's insurance is limited, but in no event will the Employee's insurance be less than the lowest amount shown in the Non-Evidence Limit provision of the Schedule of Benefits.

PERIOD OF DISABILITY means a continuous period of time during which an Employee is Disabled as the result of Injury or Sickness whether from one or more causes.

GENERAL PROVISIONS

DEFINITIONS

PRIOR PLAN means the Employer's group long term disability insurance program in effect the day before the effective date of this Policy. This Policy replaces that plan or a portion of it.

RETIREMENT PLAN means, for the purpose of determining benefit reductions, a plan that provides retirement benefits to employees. It also includes any retirement plan for which the insured is eligible as a result of his job with the Employer, including any plan that is part of any federal, state, county, municipal or association retirement system.

The term does not include:

1. Profit Sharing Plans as defined in 401 (a);
2. Thrift plans (e.g., 401 (k)s);
3. Individual Retirement Accounts (IRAs);
4. Tax Sheltered Annuities (TSAs); or
5. Stock Ownership Plans as defined in Internal Revenue Code section 4975.

When used in this Policy, the term "Retirement Benefits" means the following benefits payable from a Retirement Plan:

1. retirement benefits payable from the Employer's Retirement Plan upon early or normal retirement; or
2. disability benefits payable from the Employer's Retirement Plan.

SICKNESS means an illness or disease. It also includes pregnancy.

WE, US or OUR means The Paul Revere Life Insurance Company.

GENERAL PROVISIONS

BECOMING ELIGIBLE FOR EMPLOYEE INSURANCE

An Employee is eligible for insurance if he is a member of an eligible class listed in the Schedule of Benefits and is not excluded in the list shown below. No Employee is eligible

1. who is scheduled to work less than six months in any twelve month period; or
2. who works less than the required number of hours as defined in the definition of "Full-time;" or
3. who is employed as an airline pilot, co-pilot or crew member unless specifically mentioned in the Classification of Eligible Employees found on the Schedule of Benefits.

An Employee who is not a citizen of the United States must be a permanent resident of the United States, Canada or Puerto Rico in order to be an eligible Employee. An Employee who is not a citizen is considered not eligible for insurance if he leaves the United States, Canada or Puerto Rico for 180 or more consecutive days.

SERVICE WAITING PERIOD

The service waiting period is a period of active Full-time employment the Employee must complete before becoming eligible for insurance.

An Employee is eligible for insurance on the later of the Effective Date of this Policy or the date the Employee begins work for the Employer on an active Full-time basis.

CHANGING CLASSES

An Employee becomes eligible for insurance when he transfers from an ineligible class to an eligible class. For the purposes of this provision, he is considered to be a new Employee at that time. We use all past periods of Full-time work for the Employer to determine the Employee's eligibility date. Any period of part-time work does not count. An Employee cannot become eligible for insurance before moving into an eligible class.

RE-HIRED EMPLOYEES

A re-hired Employee is treated as a new Employee and must satisfy a new service

waiting period. However, if an Employee is re-hired within one year from the date of ineligibility for insurance, We use all past periods of Full-time work for the Employer to determine the date the Employee satisfies the waiting period. If an Employee is re-hired after one year, any past periods of work will not count when We determine the date the Employee satisfies the waiting period. An Employee cannot become eligible for insurance before the last date re-hired.

REINSTATEMENT

If an Employee requests Us to reinstate insurance that terminated while he was still eligible to be insured by this Policy, We must first approve Evidence of Insurability. Evidence must be given at the Employee's expense. The Employee's insurance does not begin until the date We specify after approving the evidence.

PD81300

SECTION 1

93-8

GENERAL PROVISIONS

EFFECTIVE DATE OF EMPLOYEE INSURANCE

The Employee must be Actively At Work on the date his insurance goes into effect. If the effective date occurs on a vacation, holiday or weekend, the Employee must have been Actively At Work on the last scheduled working day. If an Employee is absent from work for any other reason, including absence due to Injury, Sickness or leave of absence, insurance does not become effective until return to Full-time work.

NON-CONTRIBUTORY INSURANCE means that the Employer pays all of the cost of the insurance. All eligible Employees must be enrolled unless they were eligible for insurance but not covered under the Prior Plan. Insurance will become effective on the date the Employee is eligible for insurance and Actively At Work.

If the amount of insurance exceeds the Non-Evidence Limit, the amount of an Employee's insurance in excess of the Non-Evidence Limit will become effective when:

1. the Employee becomes eligible for insurance; and
2. We approve the Employee's Evidence of Insurability. Evidence for amounts over the Non-Evidence Limit is submitted at Our expense.

OTHER PROVISIONS

Application to add an affiliate or subsidiary must be made in writing. All agreements made between the Policyholder and Us are binding on all Employers. The list of approved affiliates and/or subsidiaries is shown on the policy page before the Table of Contents.

If an Employer is a partnership or a sole proprietorship, a partner or proprietor must also qualify as an Employee to be eligible for insurance. Earnings definitions for owners of such entities will be applied.

PD81400

SECTION 1

93-8

GENERAL PROVISIONS

CHANGE IN AMOUNTS OF INSURANCE FOR INDIVIDUAL EMPLOYEES

The amount of insurance for which an Employee is eligible is shown in the Schedule of Benefits. The benefits offered and the amounts of those benefits may vary by class.

Benefits may increase or decrease due to a change in class or Earnings. The Employer must notify Us in writing of any change in class or Earnings. This notification must be received before the Employee ceases active, Full-time employment.

Any change in an Employee's amount of insurance becomes effective on the date the Employee is eligible for the change.

Any amount of the change that exceeds the Non-Evidence Limit will become effective on the later of the date We approve the Employee's Evidence of Insurability or the date the Employee becomes eligible for the increase.

The Employee must be Actively At Work on the date a change in the amount of insurance becomes effective. If the effective date of the change occurs on a vacation, holiday or weekend, the Employee must have been Actively At Work on the last scheduled working day. If an Employee is absent from work for any other reason, including absence due to Injury, Sickness or leave of absence, a change

does not become effective until return to Full-time work.

POLICYHOLDER REQUESTS FOR PLAN CHANGES

Any revisions to:

1. change benefits;
2. add affiliated or subsidiary employers;
3. change contribution basis; or
4. make other plan changes

must be requested in writing by the Policyholder and will not be effective before the later of:

1. the applicant's signature date; or
2. the date The Paul Revere approves the change(s).

If this Policy is revised to increase or decrease benefits after its effective date, an eligible Employee becomes insured for the revised benefits on the effective date of the revision, subject to the Actively At Work requirement and to the applicable pre-existing condition limitation.

PD81500

SECTION 1

93-8

GENERAL PROVISIONS

TERMINATION OF EMPLOYEE INSURANCE

An Employee's insurance terminates on the earliest of:

1. the date this Policy terminates;
2. the first day for which the Employee fails or refuses to make any required premium payment;
3. the first day for which premium on behalf of the Employee is not made;
4. the date the Employee no longer works in an eligible class; or
5. the date the Employee no longer works for the Employer.

Termination of insurance will not affect any claim incurred before the date of termination.

LEAVE OF ABSENCE

Coverage may be continued when an Employee is on an unpaid leave under the Federal Family and Medical Leave Act (FMLA) for any of the following reasons:

1. to provide care after the birth or adoption of a son or daughter; or
2. to provide care after the placement of a foster child; or
3. to provide care to a spouse, son, daughter, or parent due to serious illness.

Upon approval by the Employer of an Employee's leave of absence for the above reasons, coverage will be continued, subject to premium payments, for up to three (3) months from the date the leave of absence began or, if sooner, until Employee termination. If an Employee becomes Disabled while on leave, benefits will be based upon Earnings as last reported to Us immediately prior to the beginning of the leave.

PD81600

SECTION 1

93-8

GENERAL PROVISIONS

RECURRENT DISABILITY -- SAME INJURY OR SICKNESS

If, after the end of a Disability, the Employee becomes Disabled from the same or related causes, We will deem it a separate Disability subject to a new Elimination Period and a new Maximum Benefit Period. However, if such recurrence occurs within 6 months of the end of the prior period, We will deem it a continuation of the prior Disability. However, no benefit is payable for any day the Employee is not Disabled, and no benefit period is extended by time not Disabled. The gross amount payable prior to any adjustments as outlined in this Policy would be the amount determined at the original date of Disability. A recurrent Disability ends on the first to occur of the following dates:

1. the last day of 6 consecutive months during which the Employee was not Disabled by the same Sickness or Injury.

2. the first day the Employee ceases to be disabled by the same Injury or Sickness, even if immediately disabled by a different Injury or Sickness,
3. the date the last benefit for the Injury or Sickness becomes due.

The recurrent Disability provision applies only to Disabilities that began under this Policy. If the Employee becomes eligible for coverage under any other group long term disability policy, this recurrent disability section will cease to apply to him.

CONCURRENT DISABILITY

If a Disability is caused by more than one Injury or Sickness, or from both, We will pay benefits as if the Disability were caused by only one Injury or Sickness. We will not pay more than one Disability benefit for the same period. We will pay the larger benefit.

PD81700

SECTION 1

93-8

LONG TERM DISABILITY INCOME BENEFIT

WHAT WE PAY

We pay monthly disability benefits to an Employee who satisfies the following definitions. The maximum amount We pay is shown in the Schedule of Benefits. Benefit payments may be reduced if the Employee receives income from other sources. When and how this occurs is described in the provision entitled Benefit Reductions.

Own Occupation Benefit with Residual Disability

- - - - -

TOTAL DISABILITY or TOTALLY DISABLED FROM THE EMPLOYEE'S OWN OCCUPATION means that until he reaches the end of his Maximum Benefit Period, the Employee:

1. is unable to perform the important duties of his own occupation on a Full-time or part-time basis because of an Injury or Sickness that started while insured under this Policy; and
2. does not work at all; and
3. is under Doctor's Care.

If the Employee is employed and is earning wages or a salary, he will be considered Residually Disabled as defined below.

RESIDUAL DISABILITY or RESIDUALLY DISABLED means, as a result of Injury or Sickness, the Employee is unable to perform the important duties of his own occupation on a Full-time basis, but:

1. he is able to perform one or more of the important duties of his own occupation, or any other occupation, on a Full-time or part-time basis; and
2. he is earning less than 80% of his Prior Earnings.

To qualify for the Own Occupation Benefit with Residual Disability, the Employee:

1. must satisfy the Elimination Period with the required number of days of Total and/or Residual Disability as defined in this Policy; and
2. must be receiving Doctor's Care. We will waive the Doctor's Care requirement if We receive written proof acceptable to Us that further Doctor's Care would be of no benefit to the Employee.

PD82000

SECTION 2

93-8

LONG TERM DISABILITY INCOME BENEFIT

SPECIAL PROVISIONS RELATING TO DISABILITY

The loss of a professional or occupational license for any reason does not, in itself, constitute Disability.

An Employee's Disability is determined relative to his ability or inability to work. It is not determined by the availability of a suitable position with his Employer.

WHEN WE PAY BENEFITS

Benefits begin to accrue on the first day after the Employee completes the Elimination Period shown in the Schedule of Benefits. Benefits are paid monthly while the Employee is Disabled,

PARTIAL MONTH PAYMENT

For any day a Disability benefit is payable in a period of less than a whole month, We pay one thirtieth of the applicable monthly benefit.

RECOVERY OF OVERPAYMENTS

If the monthly benefit for any month is overpaid, We have the right to recover the amount overpaid. We may deduct the amount overpaid from any future payments.

REHABILITATION BENEFIT

We will pay for the cost of services incurred in connection with a program of vocational rehabilitation if:

1. We enter into a written agreement with the Employee on both the program and the services; and
2. the cost of the services is not covered by another plan or program.

Participating in such a program will not affect the Employee's eligibility for benefits under this Policy.

PD82100

SECTION 2

93-8

LONG TERM DISABILITY INCOME BENEFIT

PERIOD OF TIME BEFORE BENEFITS BEGIN TO ACCRUE

Before benefits begin to accrue, the Employee must be Totally or Residually Disabled for a certain number of days.

ELIMINATION PERIOD means the length of time that the Employee must be Totally or Residually Disabled before benefits begin. The length of the Employee's Elimination Period is shown in the Schedule of Benefits. The Employee must satisfy the Elimination Period before the Accumulation Period ends.

ACCUMULATION PERIOD means the period of time from the Incurred Date of Disability during which the Employee must satisfy the Elimination Period. The Elimination Period is shown on the Schedule of Benefits. The Accumulation Period is equal to two times the Elimination Period. If the Employee does not satisfy the Elimination Period within the Accumulation Period, or if the Employee returns to work for 180 consecutive days, a new Period of Disability begins.

For purposes of the Elimination Period provision, INCURRED DATE OF DISABILITY means the first date the Employee satisfies the definition of Total or Residual Disability. This date is determined by Us.

BENEFIT CALCULATION FOR TOTAL DISABILITY

The amount of an Employee's Total Disability benefit is the least of:

1. the Employee's Monthly Earnings multiplied by the benefit percent less all other income benefits as shown in the provision entitled Benefit Reductions; or
2. the maximum monthly benefit; or
3. the Non-Evidence Limit, if Evidence of Insurability has not been approved by Us for a higher maximum.

The benefit percent, the maximum monthly benefit and the Non-Evidence Limit are shown on the Schedule of Benefits.

MAXIMUM BENEFIT PERIOD FOR TOTAL DISABILITY

The maximum benefit period is shown in the Schedule of Benefits. It is the maximum length of time for which We pay benefits. It applies to all Periods of Disability whether from one or more causes. In no case do We pay benefits after the earliest of:

1. the date the Employee is no longer Totally Disabled; or
2. the end of the Maximum Benefit Period shown in the Schedule of Benefits; or
3. the date the Employee dies; or
4. the date benefits would cease according to any exclusion or limitation contained in this Policy; or
5. the date benefits equaling or exceeding the long term disability benefit become payable to the Employee under the Employer's Retirement Plan.

If the maximum benefit period is limited to a certain number of years or months rather than age, the full benefit period may be restored after the Employee has worked Full-time for six consecutive months.

PD82200

SECTION 2

93-6

LONG TERM DISABILITY INCOME BENEFIT

RETURN TO WORK ADJUSTMENT BENEFIT FOR RESIDUAL DISABILITY

When an Employee returns to work from any continuous Period of Disability immediately following completion of the Employee's Elimination Period but before the end of the benefit period, We pay the Employee a monthly benefit for each whole month following return to work.

WHAT WE PAY

During the first 24 months that an Employee returns to work for any employer during any continuous Period of Disability and while continuing to meet the applicable definitions pertaining to Residual Disability:

1. We will not apply the requirement that the Employee's Loss of Earnings must exceed 20% for Residual Disability benefits; and
2. in lieu of the Disability benefit, We will pay a special Return to Work Adjustment Benefit.

The amount of the Return to Work Adjustment Benefit will be the amount of the Total Disability benefit otherwise payable after reduction for other income sources. The Return to Work Adjustment Benefit will be further reduced to the extent that the sum of the benefit plus the Employee's earnings from any employer plus other income sources (as defined in the Benefit Reduction section) would exceed 100% of the Employee's Prior Earnings.

INDEXATION OF PRIOR EARNINGS

After 12 monthly Disability benefits have been paid, the amount of Prior Earnings used to calculate the Employee's Return to Work Adjustment Benefit will be increased by 7%. The initial Prior Earnings amount will, be increased on each anniversary of the Employee's completing the Elimination Period.

MAXIMUM BENEFIT PERIOD

The Return to Work Adjustment Benefits are not paid beyond the first to occur of:

1. the date the 24th monthly Return to Work Adjustment Benefit is paid during any continuous Period of Disability; or
2. the date the Employee is no longer Residually Disabled; or
3. the end of the Maximum Benefit Period shown in the Schedule of Benefits; or
4. the date the Employee dies; or
5. the date benefits would cease according to any exclusion or limitation contained in this Policy; or
6. the date benefits become payable under any other employer's group long term disability insurance plan; or
7. the date benefits equaling or exceeding the long term disability benefit become payable to the Employee under the Employer's Retirement Plan.

PD82300

SECTION 2

93-6

LONG TERM DISABILITY INCOME BENEFIT

BENEFIT CALCULATION FOR RESIDUAL DISABILITY

DEFINITIONS

The following are terms used within the Residual Disability Benefit and the Return to Work Adjustment Benefit.

INITIAL TOTAL DISABILITY BENEFIT means the benefit that would have been payable immediately following the completion of the Elimination Period after integration with Social Security and/or other income sources.

LOSS OF EARNINGS means the Employee's Prior Earnings minus the Employee's Actual Monthly Residual Earnings for the month the benefit is due. The difference must be due to the Injury or Sickness causing the Residual Disability.

ACTUAL MONTHLY RESIDUAL EARNINGS means the Employee's salary, wages, commissions, bonuses, fees, and income earned for services performed. If the Employee owns any portion of a business or profession, it means the following:

Sole Proprietor earnings means the net profit of the business for federal income tax purposes. Net profit is defined as gross business revenues less deductible operating expenses.

Partner earnings means the partner's proportionate share of the partnership net profit as reported for federal income tax purposes. The partnership's net profit is defined as gross partnership revenues less deductible operating expenses.

Employee/Shareholder earnings means the total gross salary, pension/profit sharing plan contributions made on behalf of the individual, and the proportionate share of the current year corporate net profit.

PRIOR EARNINGS means the greater of:

1. the Employee's average monthly earnings from all employment for the 12 whole calendar months immediately preceding his last regular day of active Full-time work; or
2. the Employee's highest average monthly earnings from all employment for any period of 2 successive years during the 5 year period immediately preceding his last regular day of active Full-time work.

PD82400

SECTION 2

93-6

LONG TERM DISABILITY INCOME BENEFIT

BENEFIT CALCULATION FOR RESIDUAL DISABILITY (Continued)

In any continuous Period of Disability, immediately following completion of the Employee's Elimination Period but before the end of the benefit period, We pay the Employee a monthly Residual Disability benefit for each whole month while the Employee is Residually Disabled, as defined.

During the first 24 months, We will pay a monthly benefit according to the Return to Work Adjustment Benefit provisions. After the first 24 months of Residual Disability and for the remainder of any continuous Period of Disability, the Employee's Residual Disability benefit is proportionate to his Total Disability benefit. The proportion depends on the actual amount of earnings the Employee earns from work. To determine the monthly Residual Disability benefit, We use the following formula:

Loss of Earnings	X	The Initial Total	=	The Employee's Residual
- - - - -		Disability Benefit		Disability Benefit
Prior Earnings				

If the Loss of Earnings for any month is 80% or more of Prior Earnings, We will pay the Total Disability benefit. However, if the Loss of Earnings is less than 20% of Prior Earnings, then no Residual Disability benefit is payable.

INDEXATION OF PRIOR EARNINGS

After 12 monthly Disability benefits have been paid, the amount of Prior Earnings used to calculate the Employee's Residual Disability benefit will be increased by 7%. The initial Prior Earnings amount will be increased on each anniversary of the Employee's completing the Elimination Period.

MAXIMUM BENEFIT PERIOD FOR RESIDUAL DISABILITY

Residual Disability benefits are not paid beyond the first to occur of the following:

1. The date the Employee is no longer Residually Disabled; or
2. The end of the Maximum Benefit Period shown in the Schedule of Benefits; or
3. The date the Employee dies; or
4. The date benefits become payable under any employer's long term disability insurance plan; or
5. The date the Employee is earning more than 80% of his indexed Prior Earnings; or
6. The date benefits would cease according to any exclusion or limitation contained in this Policy; or
7. The date benefits equaling or exceeding the long term disability benefit become payable to the Employee under the Employer's Retirement Plan.

LONG TERM DISABILITY INCOME BENEFIT

FAMILY SURVIVOR INCOME BENEFIT

WHAT WE PAY

We pay a Family Survivor Income Benefit when We receive proof that all the following conditions have been satisfied:

1. the Employee becomes Totally Disabled while insured for this benefit;
2. Disability benefits have been payable to the Employee; and
3. the Employee dies while Disabled and while in the maximum benefit period.

WHOM WE PAY

Benefits are payable to the Employee's lawful spouse, if living and mentally competent. If the spouse is not living at the time benefits are payable, they are paid in equal shares to each Child. If the spouse is not mentally competent, We will pay according to applicable state law.

We decide to whom Payments are made. After We make payment, We have no further liability,

CHILD means the Employee's natural born, step-child, adopted Child, and any Child for whom the Employee is the legal guardian. Each Child must be unmarried and under the age of twenty-one in order to be eligible to receive this benefit. Unmarried children under the age of twenty-five are also eligible if they are enrolled in a school as full-time students. Students who, by reason of illness, injury, or physical or mental disability as documented by a Doctor, are unable to carry a full-time course load will be covered, provided that the course load is at least 60% of what is considered to be full-time.

HOW WE PAY

We pay a single lump sum benefit equal to three times the Disability benefit payable to the Employee, after benefit reduction, for the last full calendar month before the Employee's death. If the Employee dies before a full calendar month's benefit has been paid, the survivor benefit will be based on the Disability benefit that would have been paid at the end of the first month after satisfying the Elimination Period.

ASSIGNMENT

This benefit may not be assigned, attached or applied to the debts of the survivor unless required by law.

LONG TERM DISABILITY INCOME BENEFIT

ADJUSTABLE COST OF LIVING BENEFIT

If we pay the employee total or residual disability benefits for 12 months in any continuous period of disability, and if further benefits are payable in the continuous period of disability for months after the 12th month, we will increase further these total or residual disability benefits by a cost of living factor annually to the end of the Maximum Benefit Period in which benefits are payable under this Adjustable Cost of Living Benefit. We First Calculated the employee's adjusted monthly benefit, considering all benefits from other sources, other income and any benefit adjustments other than prior cost of living adjustments. We then increase the employee's adjusted monthly total or residual disability benefit payment by the applicable cost of living factor according to the CPI on each Review Data as follows:

LET:

A = the CPI for the most recent Index Month;
B = the CPI for the First Index Month;

THEN:

A - B = Cost of Living Factor

B

The cost of living adjustment factor uses to determine the Adjusted Monthly Benefit payment will be a minimum of four percent, and a maximum of ten percent.

CPI means the Consumer Price Index for All Urban Consumers. It is published by the United States Department of Labor. If this index is discontinued or if the method for computing it is materially changed, We may choose another index. We will choose an index which in our opinion most accurately reflects the rate of change in the cost of living in the United States. CPI would then mean the index we choose.

INDEX MONTH means the calendar month four months prior to the calendar month in which a Review Date occurs. However, the first Index Month will be the calendar month four months prior to the month in which Disability payments began.

REVIEW DATE means the date that occurs after each twelve month Period of Disability in which benefits are payable.

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SECTION 2

93-6

LONG TERM DISABILITY INCOME BENEFIT

CONVERSION PRIVILEGE

An insured Employee whose insurance terminates because employment with the Employer terminates may be eligible to convert all or some of his Group Long Term Disability Insurance. To be eligible for conversion, the Employee:

1. must have been insured for Long Term Disability (LTD) benefits under the plan for at least 12 consecutive months; and
2. must submit a completed conversion application and the first premium to The Paul Revere within 31 days of the date his employment terminates.

The Employee will not be eligible for conversion if:

1. employment terminates coincident with termination of this Policy; or
2. the Employee is eligible to receive Total or Residual Disability benefits under this Policy; or
3. the Employee is in an Elimination Period for Total or Residual Disability benefits under this Policy; or
4. the Employee is not receiving benefits but is in a Period of Disability; or
5. the Employee is no longer in a class of Employees eligible for conversion; or
6. the Employee becomes insured for other group long term disability benefits within 31 days of the date of termination; or
7. the Employee retires or ceases to be actively employed; or
8. the coverage would, in our opinion, result in over insurance.

If the Employee is eligible for conversion and applies and pays the first premium within 31 days of the date his employment terminates, We will issue him a certificate of insurance. The certificate:

1. will be effective on the day after the day his Group LTD Insurance would otherwise terminate; and
2. will be on one of the standard certificate forms then being offered by The Paul Revere for the class of risk to which the Employee will belong after his employment with the Employer terminates.

The certificate will be issued without medical Evidence of Insurability.

The premium will be determined by:

1. the certificate form issued;
2. the amount of insurance;
3. the class of risk to which the Employee will belong after his current employment terminates; and
4. the Employee's age.

PD8CONV

SECTION 2

93-6

BENEFIT REDUCTIONS

While an Employee is Disabled, he may be eligible for benefits from other sources. If so, We reduce our benefit by the amount of such other benefits paid or payable.

Listed below are other income sources that will reduce our benefit.

1. Social Security benefits, including: Primary Social Security and Family Social Security benefits received by an Employee or an Employee's dependents because of the Employee's Disability or retirement. If an Employee fails to apply for Social Security benefits, We determine the amount he was eligible to receive, and, for the purposes of this insurance, he will be considered to receive that amount.

Any general cost of living adjustment received from the Federal Social Security Act, the Railroad Retirement Act, any Veteran's Disability Compensation and Survivor Benefits Act, Workers Compensation or any similar federal or state law which takes effect after long term disability benefits become payable to an Employee is not used to reduce the Employee's benefit.

2. Other disability benefits from:
 - a. Statutory Disability ("Cash Sickness") Plans, where applicable;
 - b. Canadian Federal or Provincial Disability Benefits;
 - c. Railroad Retirement Act Disability Benefits;
 - d. Disability benefits with which We are required by law to integrate.
3. Workers' Compensation benefits;
4. That portion of any sick pay or other salary continuation (other than vacation pay) paid to the Employee by the Employer which, when added to the amount of the Employee's benefit, exceeds 100% of the Employee's Earnings as reported prior to Disability and as verified by Us;
5. Total, residual, or partial disability benefits from another group disability plan provided by the Employer;
6. Group disability benefits from the following plans, but only if the plan is Employer-sponsored:

- a. Association Plans;
- b. Fraternal Benefit Plans; or
- c. Union Plans.

Employer-sponsored means a plan that is endorsed, promoted, or facilitated by the Employer. For example, if the Employer made payroll deductions for the plan, or permitted solicitation or enrollment of the plan on company premises and/or company time, We would consider the plan to be Employer-sponsored, even if the Employee pays the entire premium.

7. No fault disability benefits; or
8. Loss of Time awards or settlements involving liability insurance or court actions; or
9. Disability benefits which are part of the Employer's Retirement Plan.
10. Retirement benefits attributable to Employer contributions. For benefits that are paid or payable under an Employer's Retirement Plan, We will end benefits under this Policy if retirement benefits are equal to or greater than our long term disability benefit.

If the Employee's retirement benefit is a lump sum instead of a monthly benefit, We will use the monthly benefit calculated for a lifetime annuity of that lump sum amount. If the Plan requires the Employee to take the lump sum distribution instead of leaving it in the Retirement Plan and he elects to roll the sum into a Qualified vehicle such as an IRA, We will defer the integration until monthly benefits can be received by the Employee without tax penalties.

If any of these benefits, except a retirement benefit, is paid in other than a monthly sum, We divide the amount paid into equal monthly amounts in order to reduce the monthly benefit. The number of monthly amounts depends on the length of time the benefit award covers. If no length of time is stated in the benefit award, We divide the amount paid into sixty equal payments. If any of these benefits is paid on a retroactive basis, We may adjust our monthly payments in order to offset any overpayment which results.

Listed below are other income sources that will not reduce our benefit.

1. Individual disability insurance;

2. General Cost of Living increases from federal or state disability or retirement programs that become effective after benefits become payable to the Employee.
3. Non-Qualified Deferred Compensation plans;
4. Whether individually purchased or provided or sponsored by the Employer, savings and investment accounts such as:
 - a. Individual Retirement Accounts (IRAs);
 - b. Internal Revenue Code Section 4975 Employee Stock Option Plans;
 - c. Thrift Plans (401 k)
 - d. 401 (a) Profit Sharing Plans; or
 - e. Tax Sheltered Annuities.
5. Disability benefits from the following plans, (including Franchise Plans), purchased as individual coverage:
 - a. Association Plans;
 - b. Fraternal Benefit Plans; or
 - c. Union Plans.
6. Government or military pensions; or
7. Disabled veterans' benefits; or
8. Retirement benefits attributable to the Employee's contributions.

PD83000-MN,PD83100-MN

SECTION 3

93-6

LONG TERM DISABILITY INCOME BENEFIT

ESTIMATED SOCIAL SECURITY BENEFITS

For the purpose of this section, the term Social Security benefits means unreduced disability or retirement benefits that the Employee, his spouse or any of his dependents are entitled to receive because of his disability under:

1. the United States Social Security Act;
2. the Canada Pension Plan;
3. the Quebec Pension Plan; or
4. any similar law, plan or act.

As part of an Employee's proof of loss, We require that the Employee furnish Us evidence that he has duly applied for all other income sources for which he is or may become eligible. In the case of Social Security benefits, this includes:

1. making due application for such benefits; and
2. if the Employee's initial application is denied, and if We so recommend, making any and all available appeals.

Until the Employee has given Us written proof that all available appeals have been exhausted, We may:

1. estimate the Employee's monthly Social Security benefit; and
2. reduce our monthly benefit to the Employee by that amount.

If We reduce the Employee's benefits on this basis, and if all of his appeals are denied, We restore the reduced amounts to the Employee in one payment.

If the Employee signs our Social Security Reimbursement Agreement, We agree not to reduce his benefits by estimated Social Security benefits while the Employee's appeals are pending. In the Social Security Reimbursement Agreement, the Employee promises to pay Us back for any overpayment of his long term disability claim that results from a retroactive award of Social Security benefits. If the Employee does not pay Us back, We have the right to recover our overpayment from any future benefits that may be due him.

With proper authorization from the Employee and his Doctor, We will give the Employee or his legal representative information from our claim file to assist in any appeal of denied Social Security benefits.

PD83200

SECTION 3

93-6

LONG TERM DISABILITY INCOME BENEFIT

WORKERS' COMPENSATION BENEFITS

If an Employee is disabled due to an employment-related Injury, he should file for workers' compensation benefits. Receipt of workers' compensation benefits will reduce Disability benefits under this Policy.

As part of an Employee's proof of loss, We require that the Employee furnish Us

evidence that he has duly applied for all other income sources for which he is or may become eligible. In the case of workers' compensation benefits, this includes:

1. making due application for such benefits; and
2. if the Employee's initial application is denied, and if We so recommend, making any and all available appeals.

We must receive written proof that all available appeals have been exhausted.

PD83300-MN

SECTION 3

93-6

LONG TERM DISABILITY INCOME BENEFIT

EXCLUSIONS

WHAT WE DO NOT PAY

We do not pay benefits for any disabilities that result from:

1. war, whether declared or not, or any act or accident of war, or armed or unarmed military or paramilitary conflict;
2. active participation in a riot;
3. the Employee's commission or attempt to commit a felony; or
4. an intentionally self-inflicted injury.

We do not pay benefits during any period in which an Employee is incarcerated.

PD84000

SECTION 4

93-6

LONG TERM DISABILITY INCOME BENEFIT

LIMITATIONS

PRE-EXISTING CONDITIONS LIMITATION

This Policy will not cover any Disability:

1. caused by, or contributed to by a Pre-Existing Condition; or
2. resulting from a Pre-Existing Condition.

PRE-EXISTING CONDITION means any Injury or Sickness that causes the Employee, during the three (3) months just before becoming insured under this Policy, to:

1. consult a doctor;
2. seek diagnosis or medical advice or receive medical care or treatment;
3. undergo hospital admission or doctor's visits for testing or for diagnostic studies; or
4. obtain services, supplies, prescription drugs or medicines.

However, this Policy will cover that Disability if it begins after the insured Employee has performed the important duties of his own occupation:

1. on a Full-time basis;
2. for at least twelve (12) months.

In no event will this limitation be applied to loss incurred or disabilities commencing after the Employee has been insured for twenty-four consecutive months, notwithstanding any other eligibility provisions to the contrary.

PD84100-MN

SECTION 4

93-6

LONG TERM DISABILITY INCOME BENEFIT

LIMITATIONS

EXCEPTION TO PRE-EXISTING CONDITIONS LIMITATION

An Employee insured under the prior group policy on the day before the effective

date of this Policy is eligible for coverage under this Policy on its effective date regardless of Actively At Work conditions.

Benefits for a Disability caused by a Pre-Existing Condition

Benefits for a Disability classified as due to a Pre-Existing Condition may be payable to the insured Employee provided:

1. the condition would have been covered under the prior group policy had that policy remained in force; or
2. on the Incurred Date of Disability the Employee has been insured and working Full-time for twelve (12) months under any combination of this Policy and the prior group policy.

If the above conditions are met, the benefit We pay will be the lesser of:

1. the monthly benefit payable under this Policy; or
2. the monthly benefit which would have been paid under the prior group policy, taking into consideration all provisions of the prior group policy.

Any payment We make is reduced by any payments made for the same Disability under the prior group policy.

In no event will We make payment beyond the first to occur of:

1. the date benefits cease under this Policy; or
2. the date benefits would have ceased under the prior group policy.

PD84200-D&R

SECTION 4

93-6

LONG TERM DISABILITY INCOME BENEFIT

EXCEPTION TO PRE-EXISTING CONDITIONS LIMITATION DOES NOT APPLY TO INCREASED BENEFITS

The exception to the pre-existing conditions limitation will not apply for the amount of benefits in excess of the benefit provided by the prior group policy on the day before this Policy became effective. The portion equal to the increased amount of benefit will be subject to the preexisting conditions limitation.

PD84200-D&R

SECTION 4

93-6

LONG TERM DISABILITY INCOME BENEFIT

LIMITATIONS

PRE-EXISTING CONDITIONS LIMITATION APPLIES TO REVISED BENEFITS

After its effective date, this Policy may be revised to increase the amount or duration of the long term disability benefit payable, to decrease the Elimination Period, or to otherwise increase the terms under which benefits are paid. In that event, benefits for a Disability due to a pre-existing condition will be paid according to the policy terms in effect prior to the effective date of the revision.

For the purposes of this provision, PRE-EXISTING CONDITION means any Injury or Sickness that causes the Employee, during the three (3) months just before the revision effective date, to:

1. consult a doctor;
2. seek diagnosis or medical advice or receive medical care or treatment;
3. undergo hospital admission or doctor's visits for testing or for diagnostic studies; or
4. obtain services, supplies, prescription drugs or medicines.

This limitation does not apply to Disabilities that begin after the Employee has been insured while working Full-time for twelve (12) months after the revision effective date.

In no event will this limitation be applied to loss incurred or disabilities commencing after the Employee has been insured for twenty-four (24) consecutive months, notwithstanding any other eligibility provisions to the contrary.

PD84300-MN

SECTION 4

93-8

PREMIUMS

PAYMENT OF PREMIUMS

All premiums are to be paid monthly in advance. The payment is due on or before the premium due date. Make premium payment to The Paul Revere Life Insurance Company and send it to the address requested by Us.

THE GRACE PERIOD

After the initial premium payment, a grace period of thirty-one days is allowed for all late premiums. This Policy automatically terminates if premium payments have not been made at the end of the grace period. Insurance is in force during this grace period, and premiums are charged.

AMOUNT OF PREMIUMS

The premium due each month is the total of the current rates for all insured Employees. The initial premium rates are shown in the Schedule of Premium Rates. We have the right to charge new rates effective on any premium due date, unless a Rate Guarantee Rider is in force. Before We can make a change, We must give written notice at least thirty-one days before the new rates take effect.

WAIVER OF PREMIUM

After the Employee becomes insured, premium is due for that Employee while he is Actively At Work and during his Elimination Period. Premium for the Employee is waived while benefits are payable to him during any continuous Period of Disability. Provided this Policy is in force when the Employee's continuous Period of Disability ends, the Employee will remain insured if he returns to active Full-time work in an eligible class and premium payments for the Employee resume.

PREMIUM CHARGES FOR POLICY PLAN OR BENEFIT CHANGES

When premium rates are changed because of a change in plan or benefits on other than a premium due date, the new premiums are charged on a pro-rata basis from the effective date of the change to the next monthly premium due date. Full monthly premiums are charged thereafter.

PREMIUM CREDITS

If We receive notice of an Employee's termination or decrease in amount of insurance, We allow a full premium credit for that Employee from the effective date of the change.

PD85000

SECTION 5

93-8

PREMIUMS

SIMPLIFIED ACCOUNTING FOR INDIVIDUAL EMPLOYEE CHANGES

When insurance for an Employee is added on other than a premium due date, his premium is charged beginning from the next monthly due date.

When insurance for an Employee is terminated on other than a premium due date, his premium is charged up to the next monthly premium due date. This method of charging premiums is for accounting purposes only and will not extend insurance coverage beyond the date of termination as described in the provision entitled Termination of Employee Insurance.

When an Employee's insurance changes on other than a premium due date, the premium is charged beginning from the next monthly premium due date.

INACCURATE CENSUS AND PREMIUM

Enrollment before the effective date could result inadvertently in premium being paid for a person enrolled but not Actively At Work since before the policy effective date. If this should occur, premium will be refunded as soon as We are notified of the situation.

SCHEDULE OF PREMIUM RATES

The initial premium rates are:

Class 1 - 0.770% of the first \$31,857 of Basic Monthly Earnings.

PD851 00

SECTION 5

93-8

CLAIMS

WE MUST BE NOTIFIED OF INTENT TO FILE A CLAIM

Written notice of a claim for Disability must be given to Us by the Employer or claimant. The notice must be in writing and must be filed at Our Home Office in Worcester, Massachusetts. Any claim will be based on the written notice. The notice must be received by Us within thirty days after the end of the Elimination Period. If We do not receive notice within thirty days, the claim may be reduced or invalidated. If it can be shown that it was not reasonably possible to submit notice within the thirty day period and it is shown that notice was given as soon as possible, the claim will not be reduced or invalidated.

WE FURNISH PROOF OF LOSS FORMS

After We receive written notice of claim, We provide a proof of loss form. This form should be furnished within fifteen days after We receive written notice. If We fail to furnish this form within fifteen days, the claimant can meet the time period shown below by submitting written proof that explains the reason for the claim. Written proof should establish facts about the claim such as occurrence, nature and extent of the Disability involved. A supply of forms is included in the Employer's administration kit.

WHEN TO FILE PROOF OF LOSS

The claimant must file written proof of the loss within ninety days of the end of the Elimination Period. We have the right to require additional written proof to verify the continuance of any Disability. We may request this additional proof as often as We feel is necessary, within reason.

If proof of loss is not submitted and received by Us within the required time period, the claim may be reduced or invalidated. If it can be shown that it was not reasonably possible to submit proof within the time period and it is shown that the proof was filed as soon as possible, the claim will not be reduced or invalidated. However, proof of loss may not be submitted more than one year after the time proof is otherwise required.

WE MAY EXTEND TIME LIMITS

If the time limit that We allow for giving notice of claim or for submitting proof of loss is less than the law permits in the state where the claimant lives, We extend Our time limit to agree with the minimum period specified by law. The law must exist at the time this Policy is issued.

OUR RIGHT TO REQUIRE EXAMS

We have the right to require an exam of any claimant as often as it may be required reasonably. The examination may be performed by a physician or vocational expert of Our choice. Any such exam will be at Our own expense.

PD86000

SECTION 6

93-8

CLAIMS

OUR RIGHT TO REQUIRE PROOF OF FINANCIAL LOSS

We have the right to require written proof of financial loss. This includes, but is not limited to:

1. statements of pre-disability income;
2. statements of income received from all sources while disabled;
3. evidence that due application has been made for all other available benefits;
4. tax returns, tax statements, and accountants' statements; and
5. any other proof We reasonably may require.

We may perform financial audits at Our own expense as often as We reasonably may

require. Payment of benefits may be contingent upon the proof of financial loss being satisfactory to Us.

HOW WE PAY BENEFITS

Any accrued benefits payable are subject to Our receiving proof of loss. Any unpaid balance at the end of Our period of liability is paid within a reasonable length of time after Our receiving proof of loss.

TO WHOM WE PAY BENEFITS

In the case of death, any unpaid accrued benefits are paid, at Our option, to the Employee's estate or to one or more of the Employee's surviving relatives based on Our selection.

All other benefits payable under this Policy are paid to the Employee. After We have made payment, Our obligation with respect to the amount paid ends.

CHOICE OF DOCTOR

For treatment purposes, the Employee is free to select any Doctor. For purposes of Disability certification, the Employee must select a Doctor who is not related by blood or marriage and who is not an Employee of the policyholder.

LEGAL ACTIONS AND LIMITATIONS

No action at law or in equity may be brought to recover under this Policy unless proof of loss has been filed according to the terms of this Policy. In addition, the claimant must wait sixty days after filing proof of loss before taking action. If any action is to be taken, it must be taken within three years from the end of the sixty day time period. If any time limit in this Policy is less than the law specifies in the state where the claimant lives at the time this Policy is issued, We extend the time limit to agree with the minimum period specified by such law.

PD86100

SECTION 6

93-8

TERMINATION

This Policy automatically terminates at the end of the 31 day grace period if premium payments have not been made.

We have the right to terminate this Policy if:

1. less than one hundred percent (100%) of Employees eligible are insured for any noncontributory benefit; or
2. less than seventy-five percent (75%) of the eligible Employees are insured for any contributory benefit; or
3. fewer than ten (10) Employees are insured; or
4. the policyholder does not report all Employees who are eligible for insurance under this Policy; or
5. the policyholder fails, at any time:
 - a. to furnish promptly any information We reasonably may require; or
 - b. to perform any other obligations pertaining to this Policy.

We may specify in advance written notice to the policyholder a date of termination. We must give the policyholder notice of termination at least thirty (30) days before the termination. It is not our responsibility to notify the Employees.

The Duration Rider includes the date this Policy terminates without renewal. If mutual agreement of renewal conditions cannot be reached, We will provide to the policyholder thirty (30) days advance written notice.

The policyholder may terminate the entire contract or may terminate certain affiliates and/or subsidiaries and their Employees at any time. In either case, the policyholder must send Us written notice and include the date the insurance will end. However, no termination of this Policy may take place during a period for which the premiums have been paid. The termination takes effect on the later of:

1. the date given in the notice; or
2. the date We receive the notice.

The policyholder must send Us any unpaid premiums for any insurance We provide while this Policy was in force, even if notice of termination had been given to Us. We determine the portion of premium to be paid for any period between the

premium due date and the date of termination.

PD87000

SECTION 7

93-8

MISCELLANEOUS PROVISIONS

ENTIRE CONTRACT

The entire contract is made up of this Policy, the application of the policyholder, applications of the Participating Employers, and application by each Employee. A copy of the policyholder's application is attached to this Policy; each Employee retains a copy of his own application.

STATEMENTS

In the absence of fraud, all application statements made by the policyholder or by an Employee are considered representations not warranties. This means that the statements are made in good faith. No statement voids this Policy, reduces the benefits We provide or is used as defense to a claim unless it is contained in a written application and a copy is furnished to the Employee.

TIME LIMIT FOR CERTAIN DEFENSES

After two years from the effective date of this Policy, no misstatement made by the Policyholder, except a fraudulent misstatement made in the application, may be used to void this Policy. After two years from the effective date of the Employer's participation in this Policy, no misstatement made by the Employer, except a fraudulent misstatement made in the application, may be used to void the Employer's participation in this Policy. After two years, no misstatement or omission made by the Employee, except a fraudulent misstatement made in an application, may be used to deny a claim for any Disability that begins after the end of the two year period.

If any time limit in this Policy is other than that specified by the law of the state where the claimant lives, We amend the time limit to agree with the period specified by such law.

MISREPRESENTATION/RESCISSION

Certain amounts of insurance or increases in insurance may be subject to Evidence of Insurability.

1. If an Employee makes a representation on his application for such an amount; and
2. if such representation or omission was material to Our approval of his application; and
3. if We discover within two (2) years of the effective date of the insurance or the increase that the material fact or omission was a misrepresentation,

then We may, at Our option, rescind that amount or increase. This means that the amount or increase will never have been in effect. All premium paid for insurance that is rescinded will be refunded.

MISSTATEMENT OF FACT

If any important facts about an individual in relation to his insurance are found to be misstated, We adjust Our premium to the correct amount. If the misstatement affects the amount of insurance, the true facts are used to determine the correct amount of insurance. Delay in reporting changes is not considered a misstatement.

PD88000

SECTION 8

93-8

MISCELLANEOUS PROVISIONS

AGENCY

The Employer acts on his own behalf or as an agent of the Employees. The Employer is not an agent of The Paul Revere.

WE PROVIDE CERTIFICATES OF INSURANCE

We issue certificates of insurance for each insured Employee. These are delivered to the Employer to be given to the Employee. The certificate states what the insurance coverage is and to whom We pay benefits. If the terms of this

Subject to the conditions set forth in the TERMINATION OF THIS POLICY provision of the attached Group Policy, the Group Policy and this Rider are in effect from April 1, 1995, through February 28, 1996. Shortly before the expiration date, the group will be reviewed for renewal. Mutual acceptance of renewal conditions

will result in our issuing an updated Duration and Rate Guarantee Rider.

If We decide not to renew this Policy, We will provide to the policyholder 30 days advance written notice.

RATE GUARANTEE

The Amount of Premiums provision of the Group Policy to which this Rider is attached is amended as follows:

Premium rates in effect on the effective date of this Rider will not be changed until the earliest of the following dates:

1. the date this Rider expires; or
2. the date the Group Policy is amended to change eligibility provisions or benefits or to add or drop insurance on any affiliated or subsidiary Employer; or
3. the date the total number of insured Employees changes by more than twenty-five percent from the number of Employees insured on the effective date of this Rider.

If any of the events described in 1, 2, or 3 above occur, the Rate Guarantee portion of this Rider ceases to operate. Any subsequent changes in premium rates under the Group Policy are made in accordance with the section of the Group Policy entitled Premiums.

THE PAUL REVERE LIFE INSURANCE COMPANY

/s/John H. Budd
Secretary

/s/Charles E. Soula
President

PD8-R&D

RIDER

93-8

NOTICE CONCERNING POLICYHOLDER RIGHTS IN AN INSOLVENCY UNDER THE MINNESOTA LIFE AND HEALTH INSURANCE GUARANTY ASSOCIATION LAW

If the insurer that issued your life, annuity, or health insurance policy becomes impaired or insolvent, you are entitled to compensation for your policy from the assets of that insurer. The amount you recover will depend on the financial condition of the insurer.

In addition, residents of Minnesota who purchase life insurance, annuities, or health insurance from insurance companies authorized to do business in Minnesota are protected, SUBJECT TO LIMITS AND EXCLUSIONS, in the event the insurer becomes financially impaired or insolvent. This protection is provided by the Minnesota Life and Health Insurance Guaranty Association.

Minnesota Life & Health Insurance Guaranty Association
750 Norwest Center
55 East 5th Street
St. Paul, Minnesota 55101
(612) 222-2799

The maximum amount the guaranty association will pay for all policies issued on one life by the same insurer is limited to \$300,000. Subject to this \$300,000 limit, the Guaranty Association will pay up to \$300,000 in life insurance death benefits, \$100,000 in net cash surrender and net cash withdrawal values for life insurance, \$300,000 in health insurance benefits, including any net cash surrender and net cash withdrawal values, \$100,000 in annuity net cash surrender and net cash withdrawal values, \$300,000 in present value of annuity benefits for annuities which are part of a structured settlement or for annuities in regard to which periodic annuity benefits, for a period of not less than the annuitant's lifetime or for a period certain of not less than ten years, have begun to be paid on or before the date of impairment or insolvency, or if no coverage limit has been specified for a covered policy or benefit, the coverage limit shall be \$300,000 in present value. Unallocated annuity contracts issued to retirement plans, other than defined benefit plans, established under section 401, 403(b), or 457 of the Internal Revenue Code of 1986, as amended through December 31, 1992, are covered up to \$100,000 in net cash surrender and net cash withdrawal values, for Minnesota residents covered by the plan provided, however, that the association shall not be responsible for more than \$7,500,000 in claims from all Minnesota residents covered by the plan. If total claims

exceed \$7,500,000, the \$7,500,000 shall be prorated among all claimants. These are the maximum claim amounts.

Coverage by the Guaranty Association is also subject to other substantial limitations and exclusions and requires continued residency in Minnesota. If your claim exceeds the Guaranty Association's limits, you may still recover a part or all of that amount from the proceeds of the liquidation of the insolvent insurer, if any exist. Funds to pay claims may not be immediately available. The Guaranty Association assesses insurers licensed to sell life and health insurance in Minnesota after the insolvency occurs. Claims are paid from this assessment.

PD8GAA-MN-1

NOTICE CONCERNING POLICYHOLDER RIGHTS IN AN
INSOLVENCY UNDER THE MINNESOTA LIFE AND HEALTH
INSURANCE GUARANTY ASSOCIATION LAW

THE COVERAGE PROVIDED BY THE GUARANTY ASSOCIATION IS NOT A SUBSTITUTE FOR USING CARE IN SELECTING INSURANCE COMPANIES THAT ARE WELL MANAGED AND FINANCIALLY STABLE. IN SELECTING AN INSURANCE COMPANY OR POLICY, YOU SHOULD NOT RELY ON COVERAGE BY THE GUARANTY ASSOCIATION.

THIS NOTICE IS REQUIRED BY MINNESOTA STATE LAW TO ADVISE POLICYHOLDERS OF LIFE, ANNUITY OR HEALTH INSURANCE POLICIES OF THEIR RIGHTS IN THE EVENT THEIR INSURANCE CARRIER BECOMES FINANCIALLY INSOLVENT. THIS NOTICE IN NO WAY IMPLIES THAT THE COMPANY CURRENTLY HAS ANY TYPE OF FINANCIAL PROBLEMS. ALL LIFE, ANNUITY AND HEALTH INSURANCE POLICIES ARE REQUIRED TO PROVIDE THIS NOTICE.

PD8GAA-MN-2

GRACO INC. AND SUBSIDIARIES
COMPUTATION OF NET EARNINGS PER COMMON SHARE

(Unaudited)

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 28, 2002	June 29, 2001	June 28, 2002	June 29, 2001
	(in thousands except per share amounts)			
Net earnings applicable to common shareholders for basic and diluted earnings per share	\$21,516	\$18,248	\$37,062	\$31,368
Weighted average shares outstanding for basic earnings per share	47,563	46,280	47,261	46,061
Dilutive effect of stock options computed using the treasury stock method and the average market price	811	888	866	870
Weighted average shares outstanding for diluted earnings per share	48,374	47,168	48,127	46,931
Basic earnings per share	\$ 0.45	\$ 0.39	\$ 0.78	\$ 0.68
Diluted earnings per share	\$ 0.44	\$ 0.39	\$ 0.77	\$ 0.67

All share and per share amounts reflect the three-for-two stock split on June 6, 2002.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Graco Inc. (the "Company") on Form 10-Q for the period ending June 28, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David A. Roberts, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. (S) 1350, as adopted pursuant to (S) 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/David A. Roberts

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David A. Roberts
Chief Executive Officer
August 1, 2002

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Graco Inc. (the "Company") on Form 10-Q for the period ending June 28, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Mark W. Sheahan, Vice President and Treasurer of the Company, certify, pursuant to 18 U.S.C. (S) 1350, as adopted pursuant to (S) 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Mark W. Sheahan

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Mark W. Sheahan
Vice President and Treasurer
August 1, 2002